University of Alberta

CAPITAL, CRISIS, AND STATE IN COSTA RICA: A HISTORICAL MATERIALIST STUDY of the EMERGENCE of NEOLIBERALISM

by

Thomas Gaston Marois

A thesis submitted to the Faculty of Graduate Studies and Research in partial fulfillment of the

requirements for the degree of Master of Arts

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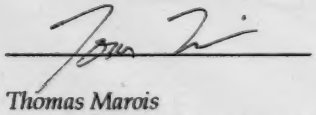

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Abstract

The following study is concerned with understanding the emergence of neoliberalism in Costa Rica since the apex of the debt crisis in 1982 to present from a historical materialist analytical framework. This critical exploration of neoliberalism will be approached not by looking solely within the confines of the national borders, but rather by analyzing the emergence as a moment within the wider capitalist world market. To this end, I argue that contrary to dominant 'common sense' understandings, the emergence of neoliberalism in Costa Rica is best understood as a new form of political domination. However, as but a historical moment, neoliberalism is open to social contestation and learning processes – that is, class struggle. Critically understanding neoliberalism's emergence, then, is best approached through a historical materialist analysis of the interrelated dimensions of capital, crisis, and state, which are themselves moments of the wider social relations of capitalist production and form the central elements of my analysis.

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List of Abbreviations

ACORDE	Association of Costa Rican Development
AyA	Acantillados y Acuaductos
BW	Bretton Woods
BWS	Bretton Woods system
CACM	Central American Common Market
CBI	Caribbean Basin Initiative
CCTRN	Confederación Católica de Trabajadores Rerum Novarum
CINDE	Costa Rican Coalition for Development Initiatives
CEPAL	Comisión Económica Para América Latina y el Caribe
CODESA	Corporación Costarricense de Desarrollo
CTAL	Confederación de Trabajadores de América Latina
CTCR	Confederación de Trabajadores de Costa Rica
DUA	Domestic-use agriculture
DWSR	Dollar-Wall Street Regime
EPI	Export-promotion industrialization
EXA	Agricultural export commodity production
FTA	Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GDP	Gross Domestic Product
GNP	Gross National Product
ICE	Instituto Costarricense de Electricidad
IDB	Inter-American Development Bank
IFI	International financial institution
IMF	International Monetary Fund
ISI	Import-substituting industrialization
NGO	Non-governmental organization
ORIT	Organización Regional Interamericana de Trabajadores
PLN	Partido Liberación Nacional
PUSC	Partido Unidad Social Cristina
SAP	Structural Adjustment Program
SBN	Sistema Nacional Bancario
SOE	State-owned enterprise
US	United States
USAID	United States Agency for International Development
USD	United States Dollars
WB	World Bank
WTO	World Trade Organization

CAPITAL, CRISIS, AND STATE IN COSTA RICA: A HISTORICAL MATERIALIST STUDY of the EMERGENCE of NEOLIBERALISM

CHAPTER ONE
THE INTRODUCTION

The Historical Materialist Analytical Framework

The following study is concerned with understanding the emergence of neoliberalism in Costa Rica since the apex of the debt crisis in 1982 to present from a historical materialist analytical framework, which considers the social relations of production and productive forces, classes and class struggle, and the state.[1] This critical exploration of neoliberalism will be approached not by looking solely within the confines of the national borders, but rather by analyzing the emergence as a moment within the wider capitalist inter-state system or, as some have referred to it, the world market.[2] To this end, I will argue that contrary to dominant 'common sense' understandings, the emergence of neoliberalism in Costa Rica is best understood as a new form of political domination.[3] As a historical class-based ideology and in its central aim to overcome recurrent barriers

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[1] Briefly, class struggle involves "both the opposition between ruling classes and dominated classes, and the tensions between the various fractions of the ruling classes." (Dumenil and Levy 2002; see also Poulantzas 2000, ch.3). The state, as a social relation itself, is "a specific material condensation of a given relationship of forces, which is itself a class relation." (Poulantzas 2000, 73). Drawing largely on Poulantzas 2000, the historical materialist framework will be more fully explored below, as will state and class in Ch.2.

[2] World market, here, is defined by Claudia van Braunmuhl as "an international, state-organized and specifically structured, all-encompassing effective international context of competition, within which statehood arises and consolidates itself and states form their characteristic economic, social and political structure." (1978, 167). Likewise, Ikeda argues that profit is dependent upon the successful organization of "labor and markets in many 'national economies' … wherein a 'national economy' can no longer reproduce itself without the deepening and widening of interactions among 'national economies'"; it is necessary, therefore, to employ a "larger-than-national-economy" framework and historical perspective together (2002, 5 & 12). For Marx, the world market is ""the basis and the vital element of capitalist production"" (from *Capital* vol.III, p.110 in von Braunmuhl 1978, 167). Generally, while this thesis seeks to explain the emergence of neoliberalism in Costa Rica, certain limitations do exist. The thesis, then, should not be taken as a 'complete' critique of capitalism, as many aspects and debates are by necessity omitted. For example, the extent of technological changes, knowledge structures, and intersecting structures of dominance such as gender, ethnicity and race, culture, as well as a great deal of historical and ecological perspectives have not been accounted for, not to mention more philosophical debates regarding the variety of ontologies and epistemologies, which include central debates around structure and agency, are left unexplored.

[3] Here, drawing on Gramsci, common sense denotes the philosophy of the masses, who accept the morality, the customs, the institutionalized behavior of the society they live in (Fiori in Carnoy 1984, 68-69). *Cf.* Keil and a more recent analysis of common sense neoliberalism (2002).

to progressive capital valorization, neoliberalism suggests that all social, political, and ecological problems can be resolved via more intensive and extensive forms of class-based exploitation and more direct exposure to market competition.[1] Thus, because neoliberalism seeks to restructure pre-existing social relations of capitalist production, it constitutes a new form of political domination.[2] As a new form of domination, neoliberalism has formative roots within earlier class-compromises and production relations. Privatization is a vanguard method of neoliberal political domination because it reconfigures the social relations of production by deepening the structural power of capital.[3] However, as but a historical moment, neoliberalism is open to social contestation and learning processes – that is, class struggle. Critically understanding neoliberalism's emergence, then, is best approached through a historical materialist analysis of the interrelated dimensions of capital, crisis, and state, which are themselves moments of the wider social relations of capitalist production and form the central elements of my analysis.[4] That said, *Chapter One* will open the study as follows: (a) by briefly expanding upon the above thesis; (b) by providing a review of existing approaches to the emergence of neoliberalism in Costa Rica; and (c) by further outlining my argument.

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[1] Drawn from Soederberg 2001b; Clarke 1988; Dumenil and Levy 2002; Strange 2000; Here, ideology is understood within a Poulantzian framework that encompasses political, economic, and ideational moments as internally related and inseparable 'form and content' of historically determined ideologies. Therein, ideology is always class ideology and the dominant ideology constitutes an essential power for the ruling class (2000, 28; *cf.* Gramsci 1999, 376-77, 427). Capital, understood from a Marxist perspective, is a social relation between people that appears as a relation between things or between people and things (Mandel 1990, 54). The valorization of capital refers to the overall movement or circuit of capital, "in which capital is a value which undergoes a series of transformations, each of which corresponds to a particular function in the process of valorization." (Mohun 1991, 69) By 'capital' specifically, I am referring to capital-in-general, which includes the three moments within the circuit of capital, namely money capital, productive capital, and commodity capital; by 'capitals', I refer specifically to the class of the owners of the means of production, or capitalists (Soederberg 2001b, fn2, 79). Ch.2 below explores 'capital' in more depth.

[2] Drawn from Soederberg 2001b & 2001c; Clarke 1988; Rupert 1990; Dumenil and Levy 2002; Strange 2000; Brodie 1997; Here, I define domination as the asymmetrical class-based capacity to shape historical-structural sites of social action (drawn from Rupert 1990, 432).

[3] Drawn from Soederberg 2001b; Gill and Law 1988; Richards 1997; Cypher 1989; Feigenbaum and Henig 1994

[4] *Cf.* Soederberg 2001b, 62; Here, crisis refers to the inherent yet unpredictable crises of over-accumulation/overproduction, which are based upon the objective features of the capitalist mode of production. Crisis occurs as a normal form of capitalist accumulation due to "competitive pressure, based on the uneven development of the forces of production, which forces individual capitalists to seek constantly to revolutionize the forces of production…. The resulting overproduction of commodities leads to growing pressure on the profitability of the less advanced capitals …." (Clarke 1988, 81; see also Bonefeld 1999, Soederberg 2001a) Crisis will be explained in more depth in Chapter Two.

Before proceeding further, however, it is important to define 'emergence', which encompasses the historical procedures of introducing a particular instant or moment (for example, neoliberalism).[1] Following, this study will be focused upon understanding the *form* of neoliberalism in Costa Rica, because of its centrality to social learning and class-struggle, more so than its specific *content*, though neither can be understood in isolation.[2] Attending to form helps one overcome common sense façades that are devoid of class-struggle.[3] Nevertheless, understanding the intersection of both form and content are central to Marxist conceptualizations of political economy[4]:

> [f]or Marx a study of the concepts of political economy as they had arisen in the pre-1830 period was decisively important for he held that without conceptual thinking, no conscious thinking was possible. Unlike the political economists he could not take the forms developed by the subject as ready and given. These forms had to be investigated, because it was only through them that the content of bourgeois relations developed and revealed itself.

Costa Rica and the Emergence of Neoliberalism

The largely Spanish-speaking Democratic Republic of Costa Rica is nestled between Nicaragua to the north and Panama to the south.[5] Although a relatively small country (slightly smaller than the Canadian province of Nova Scotia[6]), Costa Rica supports a population of approximately 3,775,000, many of whom live in and around the capital city of San José located in the central valley. Since the end of World War II, Costa Rica has

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[1] The concept of emergence is drawn from "instantiation" following I. Kant as explained by Dr. Samet Bagce, Middle East Technical University, Turkey, 9 March 1999 via personal communication. See also Bernard (1999) who employs the term 'instantiation' in a like manner in reference to neoliberalism.

[2] Drawing on the philosophical work of Henri Poincaré, the underlying continuity in change or shifts (that which is retained) is one of *form* or structure, not of content (Worrall 1989, 117; Psillos 1995, 19). *Content* refers to the underlying mechanisms and processes which in fact do change (Psillos 1995, 18). As Bagce argues, "by carrying over the structure we have continuity in science through changes" and by maintaining a distinction between form and content, (1) "it emphasizes the creative role of the mind" because of structure and (2) allows one to explain change "in such a way that leads to a continuity". I suggest that such a conceptualization allows one to better understand how relations transform historically through class struggle because of the necessary interaction of both structure and agency.

[3] Drawn from Soederberg 2001b

[4] Pilling 1980

[5] The following general information on Costa Rica was downloaded on 28 July 2002: http://www.cia.gov/cia/publications/factbook/geos/cs.html

[6] Downloaded 28 July 2002: http://www.gov.ns.ca/finance/publish/facts/1997/faxa01.htm

come to be one of the wealthiest countries in Central America boasting a stable and extensive welfare state.[1]

Neoliberalism began its emergence following the 1970s and early 1980s world recessions and the 1982 electoral victory of the Alberto Monge/Partido Liberación Nacional (PLN) administration, which quickly moved to reestablish damaged relations with external creditors [after the expulsion of the International Monetary Fund (IMF) in August 1981 by the conservative Unidad Carazo administration (1978-1982)] and stabilize the struggling economy.[2] To restore domestic and international confidence, arguably, the Monge administration announced the dramatic "100-Day Plan" of austerity measures that sought to regain control of the exchange rate, cut governmental and semi-autonomous institutions' budgets, remove price controls on basic consumer goods, and raise taxes – that is, the basic conditions required to reopen stalled negotiations with the IMF.[3] Over time, significant neoliberal restructuring of Costa Rican social relations of capitalist production occurred as deeper economic reforms were initiated and a more profound relationship with international financial institutions (IFIs) was established.[4]

International Agencies in Costa Rica

The foremost IFIs engaged in Costa Rica included the IMF, the World Bank, the Inter-American Development Bank (IDB), and the United States Agency for International Development (USAID, or simply the Agency); therein, the Agency played a central role as an influential leader and financial contributor in the neoliberal reform processes.[5] Under US leadership, cross-conditionality of reform measures and coordination of structural adjustment programs (SAPs) ensued within and across these IFIs engaged in Costa Rica.[6] Since the 1980s, Costa Rica has signed several agreements with the IMF, initiated WB SAPs, and permitted a "parallel state" to be set up and managed by the

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[1] Nossal defines the welfare state as "the idea, dominant for much of the twentieth century, that welfare [i.e., well-being of all kinds, especially economic] for the citizens of a political community should be produced by the state." (1998, 511). For a discussion of Costa Rica's relative prosperity in Central America see: Bulmer-Thomas (1987).

[2] Sojo 1991; Wilson 1998; Clark 1997

[3] Seligson and Muller 1987, 316; see also Brenes 1990, 126; Honey 1994

[4] Sojo 1991, 15; Goss and Pacheco 1999; Robinson 1998; Clark 1997; Franco and Sojo 1992

[5] Valverde 1993; Barry and Preusch 1988; Sojo 1991; Clark 1997; Saborio 1990, 280; Honey 1994, Ch.3

[6] Franco and Sojo 1992, 28; Refer to Ch.3 for a further discussion of conditionality, SAPs, and IMF/WB linkages.

Agency.[1] The restructuring of the social relation of production was endorsed domestically by the PLN Monge administration, state technocrats, and commerce, industrial, agro-export, and finance capitals in tight collaboration with the Agency.[2] The Agency has since celebrated Costa Rica's initial recovery, its growth in trade since the early 1980s, and the successful transformation of a largely traditional agriculture economy to one of export promotion; this transformation, argues the Agency, was made possible via the promotion of stabilization, privatization, and liberalization alongside their financial support for private banks.[3] These so-called macroeconomic successes and the new linkages developed between state and capitals, nationally and internationally, have helped to "solidify neo-liberalism as the new logic of the state development efforts."[4]

Challenging Neoliberal Orthodoxy

In contrast to the idea that the state is being 'hollowed-out' (*i.e.*, that states are withering away under the dictates of the global marketplace[5]), an idea which has become increasingly salient since the late 1970s, the Costa Rican state, as a social relation, is not insignificant and powerless but rather always engaged in the shaping of its future. This position contradicts many contemporary accounts of Costa Rica that bemoan the state's impotency given the immense post-1980s structural power of the United States (US) and IFIs.[6] While one cannot deny the structural power of capital involved therein, this principally structuralist conceptualization of the relationship between globalization and the capitalist state holds that corporate power is the main determinant behind policy formation within emerging markets[7]; this mainstream approach neglects two central

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[1] Sojo 1991, 15; Goss and Pacheco 1999; The "parallel state" was first dubbed and described by John Biehl (advisor to Costa Rican President Oscar Arias, 1986-1990) as "a set of AID-created and –financed private institutions – banks, a foreign investment agency, a university, a road construction company and so forth – which duplicated and weakened existing government institutions" that was an attack on Costa Rica's "quiet socialism" by the US (in Honey 1994, 75).

[2] Clark 1997; Sojo 1991

[3] Downloaded on 18 July 2002 from the USAID website: <http://www.usaid.gov/press/releases/960723.htm>

[4] Goss and Pacheco, 1999

[5] Some refer to this as the 'globalization thesis', see Nossal 1998, 457; see also Klak, 1998. Susan Strange similarly argues that the state is being undermined or hollowed-out by the forces of globalization (1996; 1997). Robinson [1998; 2000 (and Harris)] follows a similar logic in the formation of a transnational capitalist class as does Clark (1997).

[6] See Honey (1994); Clark (1997); Booth (1998); Robinson 1998; a fuller discussion of the varying analyses will be given below.

[7] Briefly, capitalism engenders a certain exploitative relationship between social classes that "takes place not openly but through the 'free' sale and purchase of labour power as a commodity

issues: (1) "states and markets are two moments of the same historical social relations of production", and (2) "class-based struggle remains an important force in bringing about socio-economic and political change."[1] However relatively small the physical size and economy is within the world market, the Costa Rican state, as a historical social relation itself, thus remains an important element of wider contemporary capitalist social relations. How is this different from a neoliberal understanding?

Common Sense Neoliberalism and the State-Market Dichotomy

'Common sense' neoliberalism draws legitimacy and appeal from the presumption that liberal economics is a science governed by universal laws, unaffected by human interaction[2]; in fact, liberalism mimics the natural sciences by superimposing the appearance of reason.[3] The characteristic of reason attributed to common sense is important because, following Gramsci's concept of hegemony as the ideological predominance of the dominant classes in civil society over the subordinate classes[4], common sense arises from "[t]he philosophy of the ruling class [that] passes through a whole tissue of complex vulgarizations to emerge as 'common sense': that is, the philosophy of the masses, who accept the morality, the customs, the institutionalized behavior of the society they live in."[5] The dominant classes' philosophy in capitalist society is capitalist, wherein common sense neoliberalism and its closely affiliated neoclassical economics engender an explicit state/market, politics/economics dichotomy, which tends to obscure the class-based and exploitative social relations between capital

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on the market." (Holloway 1995, 121). The state is itself a form of social relations (Poulantzas 2000). The capitalist state, then, is a form of capitalist social relations and depends upon the reproduction of those relations (Holloway 1995, 121). The state will be explored further in Chapter Two.

[1] Soederberg 2001b, 61; *cf.* Poulantzas 2000; Panitch 1994

[2] Strange 2000, 86; Neoliberalism itself draws on neoclassical economics. The *neoclassical model* of growth emphasizes the importance of 'capital deepening' (i.e., "a growing capital-labour ratio") and technological change to explain the potential real growth of GDP. (Samuelson and Nordhaus, 1998: 752) That is, neoclassical economics focuses on the link between savings decisions and capital accumulation. (Dornbusch, Fisher, and Startz, 2001: 53) Competition has been a key variable in this equation of growth. Ensuring that firms can both enter and exit markets is an important element of competition (WB, 2002: 14)

[3] Bourdieu, Pierre and Loic Wacquant. "Neoliberal Newspeak: Notes on the New Planetary Vulgate." Downloaded on 18 April 2002 from << http://www.forumsocialmundial.org.br/eng/tbib.asp>>.

[4] Carnoy 1984, 68

[5] Fiori in Carnoy 1984, 68-69

and labor.[1] The state, as a distinct 'thing' within common sense conceptualizations, becomes understood as antiquated and the market as progressive (and rational). What a common sense understanding ignores is the unity of state and market as separate but inter-related moments within the wider social relations of capitalist production and the centrality of class-struggle in social change, whose conflictive relations impact upon how neoliberalism, as a class-based ideology, comes to characterize a particular historical moment within the state (the political) and economic (material) relations of production.[2] Understanding neoliberalism as a historical instant, as opposed to pure rationality, thus leads one to the question of "who benefits?" from pursuing this ideology, a question that can only be fully addressed by demystifying the inner class-based nature of neoliberalism and how it serves as a form of political domination.

A Review of Approaches to the Study of Neoliberalism in Costa Rica

Common sense neoliberalism, as reflected within most mainstream discussions on Costa Rica, is often couched within overly technical, essentialist, and narrowly liberal and neoclassical economic terms.[3] Often, liberal economists[4] and state technocrats (national and foreign)[5] argue that given the failure of the pre-existing welfare state model, the adoption of neoliberal stabilization and SAP solutions is the best (perhaps only) alternative. Without questioning the underlying ideological tenets, policy prescriptions, and material foundations of neoliberalism, these largely ahistorical and economistic analyses tend to focus upon the culpability of various governments for the slow pace of seemingly inevitable neoliberal reform.[6] However, as Klak points out:[7]

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[1] Drawn from Bourdieu and Wacquant; Marx 1949, 1990; A focus upon the state-market dichotomy vis-à-vis relative autonomy will be explored further in Chapter Two as it is key to the reproduction of capitalist social relations of production (see also Judson 2002, 159).

[2] *Cf.* Poulantzas 2000

[3] See: Saborio 1990; Dijkstra and van der Wijk 1996; for Latin America, see Williamson 1993

[4] Williamson (1990); Lucas and Sargent (in Samuelson and Nordhaus 1998); Jorge Guardia (in Brenes 1990, 148).

[5] See: Eduardo Lizano, head of the Costa Rican Central Bank for much of the 1980s and named governor of the IMF, World Bank, and Inter-American Development Bank (in Honey 1994, 85); Saborio, who has held several positions within the Costa Rican government; Brenes notes the important influence of North American technocrats (e.g., the Arthur D. Little corporation) who placed the economic crisis' blame solely upon the pre-1980s welfare-state model (1990, 126).

[6] Coes 1998; Vargas-Cullell 1998; Ramamurti 1992; Basañes *et al* 1999; Tomiak 1999; Ordover and Uribe 1999; Esquivel and Larraín 2001; Lecuona and Momayezi 2001; Camancho 1996; Saborio 1990;

[7] Klak 1998, 4

> Because mainstream views often deny the reality of power and struggle, they are status quo reinforcing and therefore serve to perpetuate the highly unequal power distributions at the national and international levels. In other words, imbedded in the mainstream assumption of economic 'progress' is an uncritical acceptance of socially constructed systems of inequality, scarcity, and poverty.

Nevertheless, more critical understandings accounts exist that engage in discussions of power relations. For example, Bruce Wilson (1998) employs a new institutionalist lens to understand political processes and democracy in Costa Rica.[1] This methodology suggests politicians' preferences "'can be understood only in the context of the institutionally generated incentives and institutionally available options that structure choice'".[2] Looking at both internal and external influences on politicians, Wilson argues that the decision to adopt neoliberal reforms after the 1980s debt crisis was largely internal; he states, " ... even without any international pressure, 90 percent of neoliberal reforms during the Monge administration would have been implemented".[3] Wilson does not ignore the importance of IFIs; rather he stresses the role of individual domestic actors in accepting or rejecting economic advice from IFIs.[4] However, Wilson offers no explicit theory of state and, as such, tacitly accepts the ubiquitous separation of state and market found within bourgeois economics and social science. By perpetuating the supposed natural separation, he thereby reinforces common sense, if more critical, analyses that simply argue for either more or less state intervention.[5] The state-political remains in this sequence an external relation to the wider capitalist social relations of production.

John Booth (1998) utilizes a mixture of structural analysis and elite settlement analysis to explain his central object of inquiry – democracy in Costa Rica.[6] In contrast to Wilson,

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[1] Wilson 1998, 3

[2] Grofman in Wilson, 1998, 3; In addition, Wilson draws on Peter Hall's (1992) definition of institutions as "'formal rules, compliance procedures, and customary practices that structure the relationship between individuals in the polity and the economy. Institutions may be more or less formal but invariably serve to regularize the behavior of individuals who operate within them.'" (1998, 3).

[3] Wilson 1998, 124

[4] Wilson 1998; For similar institutionalist approaches that stress national determination see: Vega Carballo 1993; Seligson and Muller 1987.

[5] *Cf.* Regulationist approaches, a solid critique of which is found in Clarke 1988

[6] Booth states that structuralists "contend that elites relinquish exclusive ruling power and democracies develop only when forced to do so by the growth in the power and resources of competing nonelites."; Elite settlement theory "contends that elites forge democracies through

he argues that, "[u]ndeniably decisive in Costa Rica's adoption of neoliberalism was foreign pressure … who promoted the neoliberal economic model as a panacea for developing economies."[1] Booth's analysis, while attempting to be critical of neoliberal structural adjustment, sees it as a largely top-down, transmission process.[2] Like Wilson, no explicit theory of state and struggle is offered. While Booth seeks to incorporate crisis and class (seemingly under elite settlement analysis), he fails to fully grasp crisis as a recurrent phenomenon inherent within the capitalist mode of production. Rather, crisis is one of political legitimacy within democratic processes that can be resolved via elite compromises and is incidental to wider economic crises. Similar to Wilson's, there remains in Booth's work a false dichotomy between state and market, which insinuates that they are external relations.

Significant analytical gaps thus remain, which must be addressed in order to comprehend the complex and interrelated dimensions surrounding the emergence of neoliberalism. Additional analyses must seek to explain the multi-leveled processes involved in the emergence of neoliberalism within states, while attempting to integrate both the national and international, and economic and political levels of analysis with understandings of policy formation and determination. One attempt is by Mary Clark (1997), who argues that transnational coalitions comprised of foreign-aid officials, state technocrats, and private business leaders have assumed leadership for economic reform. Transnational coalitions 'coincidentally' form within a given state if the following occurs: (a) the state is selected by an external development organization because of some importance it holds; (b) the state is willing to accept a transnational alliance (more likely in times of crisis); and (c) compatible local allies are available "to guide the external entity through domestic political processes." In the case of Costa Rica, a transnational alliance took the leading role in the adoption of neoliberalism as the government was politically and financially unable to do so. Unfortunately, neoliberal reform appears here to be a given occurrence and her uncritical accounts of said transnational processes ignore domestic class struggle and neoliberal state restructuring.

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agreements, whether explicit or tacit, to play by democratic rules and tolerate mass participation" (1998, 197).

[1] Booth 1998, 203

[2] A similar analysis includes: Honey (1994); Robert Cox (1987) argued for a similar model of top-down processes of change in political economy.

William Robinson (1998) adopts a similar, yet significantly more critical, Marxist, transnational analytical framework wherein social transitions are not limited to 'democracy' or 'peace' or a 'market economy'. Rather, Robinson addresses fundamental change in the social order, involving a complete restructuring of Central American countries at all levels (i.e., of political regime, economy, social and cultural institutions, classes, etc.). Importantly, social struggle shapes the emerging profile of a country within the global economy and society. These fundamental changes, he argues, must be understood via a transnational framework of analysis that *supersedes* the nation-state. However, one of the key problems with Robinson's 'transnational' framework is that relations of exploitation become deterritorialized from the state, the state that ensures their very reproduction. This is not to suggest that significant changes have not occurred within global capitalist relations of production, which have a certain trans-and inter-national character; however, capital accumulation has always been global in nature and the bourgeois state an integral moment of this social relation, a moment which has yet to become irrelevant.

Lastly, Goss and Pacheco (1999) undertake a Marxist comparative analysis of Costa Rica and Thailand and the role of state authoritarianism in the implementation of neoliberal agendas. The authors argue that "the decline of national or state developmentalism can be seen as an outcome actively pursued by elites within specific historical circumstances." Moreover, rather than states withering away or being hollowed-out, they have restructured from performing more regulatory functions (e.g., exchange rate controls, tariffs, etc.) to adopting functions of mediation (i.e., "a process that a capitalist state undertakes to integrate at transnational levels, while at the same time ensuring continued opportunities for accumulation")[1]. The authors conclude that, in the case of Costa Rica, a fairer form of representation than Thailand's presented greater challenges in the transformation of their economy from "public goals to corporate profits", that is towards neoliberalism. Goss and Pacheco offer an excellent and complex account, which is the closest to addressing my questions of "who benefits?" and "why?" from the emergence of neoliberalism in Costa Rica. Nonetheless, due to the breadth of their

[1] This account is similar to Panitch 1994 with 'states-as-authors' conceptualization; also see Bernard 1999.

comparative study, they can not and do not fully draw out the centrality of state and the state's relationship to crisis, capital, and class struggle.[1]

Critically Reinterpreting the Emergence of Neoliberalism

Neoliberalism is not a natural phenomenon and therefore must be considered historically. An equally important and largely neglected question is that of the state, as a social relation and field of struggle, vis-à-vis crisis and its relation with the global reproduction of capital. To address this gap in the literature, I ask the two related questions of "who benefits?" and "why?" from the emergence of neoliberalism in Costa Rica. As my analytical point of departure and to help critically situate the question of neoliberalism's specific expression in Costa Rica relative to these two questions, I will draw from a historical materialist analytical framework[2] wherein materialism concerns the way things are produced, distributed and consumed in historical societies[3]. Furthermore, my historical materialist analytical framework is concerned with the centrality of social classes and the role of state in defining and shaping class conflict *and* the effects of historical class conflict on the state through changes in the relations of production.[4] Therein, the questions of neoliberalism's emergence are set squarely within the context of historical class-struggle, the changing relations of production, and the contradictions of capital-in-general. This particular framework allows one to concentrate upon the inter-related triad of social change (capital, crisis, and state) and how these are linked nationally and within the world market, which reflects the complex, class-based web of power relations within the shifting relations of production and structure of global accumulation that lie beneath the emergence of neoliberalism within Costa Rican social relations of production.

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[1] For other similar critical interpretations that stress national/state factors, see Brenes (1990, 148-49); Sojo (1991); Franco and Sojo (1992).

[2] Poulantzas 2000; Note: Varying interpretations of historical materialism exist but cannot be addressed in full here. Briefly, however, I will be largely drawing upon Poulantzas' interpretation of historical materialism that attempts a more dialectical approach to conceptualizing the relative autonomy of the political state vis-à-vis economics, which is a departure from Althusser's more structuralist conceptualization (Carnoy 1984, Ch. 4) wherein class struggle remained largely gestural (Hall 2000, viii). Similarly, Poulantzas' approach is in contrast to the more functionalist interpretation of the relationship between the forces and the relations of production [for example, G. Cohen (Martin 1995)].

[3] Carnoy 1984, 46

[4] Poulantzas 2000; *cf.* Panitch 1994; Soederberg 2001b

To restate, the main objective of this thesis project is to critically explore the emergence of neoliberalism in Costa Rica by integrating the national and international within the wider capitalist world market, wherein the emergence of neoliberalism is best understood as a new form of political domination. The particular form of neoliberalism that arose in post-1982 Costa Rica was conceptualized, initiated, and mediated through coalitions of American political elites and their local Costa Rican counterparts, capital-in-general, and local entrepreneurs as a socially contested process of struggle and negotiation. As a historical ideology, neoliberalism characterizes but a particular moment in the history of the capitalist mode of production in Costa Rica; that is, but a moment within a history of recurrent and inherent crises that must be overcome to ensure the progressive valorization of capital. It is through this critical understanding of neoliberalism that one can challenge and expose the class-based, so-called common sense, character of neoliberalism that ideologically upholds what Klak referred to above as "an uncritical acceptance of socially constructed systems of inequality, scarcity, and poverty" or what Soederberg has referred to as "a new form of political domination propelled by class struggle."[1]

Outline of Argument

The thesis that neoliberal ideology is a new form of political domination will be developed in six chapters. *Chapter Two* will have a single, two-step goal aimed at expanding upon my historical materialist analytical framework. I will specifically discuss the three principal concepts to the argument at hand, namely capital, crisis, and state, which themselves are interrelated moments of the wider totality of social relations of capitalist production. Inseparable from this initial step is a second one: namely, underpinning how the above triad is internally linked within the dynamic relations of capitalist production.

Chapter Three explores the links between the emergence of neoliberalism in Costa Rica, the crisis of capitalism, and America's fading hegemony in the post-Bretton Woods era and, as such, constitutes the fulcrum of the overarching thesis. Following the historical materialist analytical framework outlined in *Chapter Two*, I will argue that neoliberalism's emergence must be analyzed by addressing the class-based conflicts realized amongst the interrelated triad of capital, crisis, and state, which are embedded within the totality of the world market and contradictory capitalist relations of

[1] Klak 1998;Soederberg 2001b

production. Intimately linked to this process are the US and Costa Rican governments as well as finance, agro-export, commerce, and industrial foreign and domestic capitals, each of which benefit in some way from the emerging neoliberal order. As we shall see, the 1980s debt crisis provided a moment rich with opportunity to restructure the social relations of production and to present neoliberalism as the only viable alternative for future growth.

Chapter Four builds upon the foregoing analysis by broadly examining the foundations of Costa Rica's political economy from the colonial period (1502-1821) to the end of the Bretton Woods era when neoliberalism began to emerge. The focus upon this period serves to highlight the pre-existing schizophrenic model of dependent capitalist development and political economic conditions that precipitated the change in state-form towards neoliberalism. Here, I argue that the historical emergence of neoliberalism is rooted within earlier social relations of capitalist production and class compromises, which similarly upheld specific forms of political domination within the capitalist relations of production.

Chapter Five will argue that contrary to common sense understandings as a wholly economic policy, privatization is rather a method of political domination that deepens and intensifies the structural power of capital.[1] That is, privatization serves as a *means* to the neoliberal *end* of restructuring the social relations of capitalist production and, hence, political domination to the benefit of the capitalist class. In particular, privatization embodies three strategic goals: (1) to open-up publicly-owned economic space for capital valorization; (2) to extend and intensify labor's subjugation under capital; and (3) to reconfigure the state as field of class struggle.[2] Thus, privatization is integral to the overall neoliberal restructuring of social relations of capitalist production because privatization fortifies capital's dominance over the popular classes by means of the state.

Chapter Six, by way of a summary and conclusion, will revisit the questions of "who benefits?" from neoliberalism and "why?". However, following Gramsci, the solution of old has become the problem of new. One contradiction that has arrived alongside neoliberalism is the continuing cycle of mounting debt and increasing social costs

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[1] Drawn from Soederberg 2001b; Richards 1997; Cypher 1989; Feigenbaum and Henig 1994;
[2] Soederberg 2001b; Cypher 1989; Feigenbaum and Henig 1994; *cf.* Hall's quote below

witnessed in Costa Rica that have not been mitigated by neoliberalism. That is, one of the internal contradictions of neoliberalism is that the accumulation structure depends upon unhindered flows of unlimited foreign capital, foreign capital flows that are supposed to be guaranteed by the state but in reality are far from guaranteed as state credit ratings and stability are quickly eroding due to the unstable, crisis-ridden, and exploitative structure of the capitalist mode of production and the neoliberal political form. Critically confronting this contradiction will question the very viability of the neoliberal project and, perhaps, open doors for equitable social change.

CHAPTER TWO

CAPITAL, CRISIS, AND STATE: A HISTORICAL MATERIALIST ANALYTICAL FRAMEWORK

Expanding upon *Chapter One*, which broadly outlined how, from a historical materialist perspective, I plan to interpret neoliberalism's emergence in Costa Rica, *Chapter Two* has a single, two-step goal aimed at expanding upon and clarifying my analytical framework. To support the wider thesis that neoliberalism is a new form of political domination, I will discuss the three principal concepts to the argument at hand, namely capital, crisis, and state. I will argue that this triad, whose elements are themselves interrelated moments of the wider totality of social relations of capitalist production, characterizes the main tenets of my historical materialist theoretical framework. Inseparable from this initial step is a second one: underpinning how the above triad is internally linked within the dynamic relations of capitalist production. In order to address these two steps, three questions immediately come to mind. First, what happens when the processes of capital accumulation experience crisis? Second, what is the relationship between capital accumulation and the state? And, third, what is the relationship between crisis and the state?[1] Coming to an understanding of capital, crisis, and state and their interrelations helps establish a theoretical lens through which evolving manifestations of the capitalist mode and relations of production, such as neoliberalism, can be understood.

I
UNDERSTANDING CAPITAL

Mainstream Concept of Capital

Defined within mainstream liberal and neoclassical economics, capital denotes one of three productive inputs that include land, labor, and capital; therein, capital consists of durable produced goods that are subsequently used in or to further production, which include plants, equipment, and inventories.[2] Capital is also understood as a wealth-based and owned asset, such as a quantity of money, investments, stocks, bonds, and/or shares

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[1] A similar set of questions vis-à-vis state, capital, and crisis has been posed by Soederberg 2001b.
[2] Samuelson and Nordhaus 1998, 739; Lipsey, Ragan, and Courant 1997, G-2; Gill and Law 1988

that represent rights to or the physical means of production themselves.[1] Capital, then, is an asset-thing that, in and of itself, can potentially generate income for the owner of that asset.[2] Income originates from within *production* and not from within *exchange*, which comes as a result of the sale of commodities *at* their value, rather than above.[3] From the mainstream understanding, two implications arise: one, capital is ahistorical and thus inherent to all societies regardless of space or time, and; two, 'things' or inanimate objects are themselves productive in the sense of generating income.[4]

Social Relations of Production and Capitalism

In marked contrast to mainstream understandings, Marxism begins with an understanding of capital as a historical social relation and, therefore, specific to capitalism.[5] Capitalist social relations of production constitute a historical system that has an orientation and goal but no fixed limit whose relations are defined by the centrality of endless capital accumulation and by the contradictory interrelations of classes and market-based societies in which exploitative material relations and their attendant social conflicts drive development and social change.[6] Capitalism, in particular, is a mode of production in which the various forms of capital are the principal means of production and a defining feature is the private ownership of capital in the hands of the capitalist class to the exclusion of the majority of the population.[7] A mode of production denotes a specific arrangement of forces and relations of production organized so that a particular mode of appropriating surplus value is made sustainable, which arises within a totality of economic, political, and ideological determinations that fix the boundaries of these determinations.[8] The forces of production, which are not wholly technical but are instead shaped by the dominant social relations of production, include both the means and objects of labor as well as labor power itself. For example, while Costa Rica has developed significant specific technologies that have helped sustain coffee production (e.g., innovations such as irrigation and horticultural practices as means and objects of labor), the dominant factor is the more intensive and extensive commodification and progressive

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[1] Mohun 1991, 68
[2] Mohun 1991, 68
[3] Milward 2000, 41
[4] Mohun 1991, 68
[5] Gill and Law 1993
[6] Wallerstein 2000; Hirsch 1999, 285,291; Poulantzas 2000, 110
[7] See Desai 1991, 73
[8] Poulantzas 2000, 17; Jessop 1990, Ch.3

exploitation of domestic labor-power, which have ushered in the most significant social changes in the last twenty years as exemplified by the move from a welfare to a neoliberal state.[1]

The social relations of production can be further divided analytically into (a) relations *in* production, that is, the working relations between classes within a productive center, and (b) relations *of* production, that is, the capacities to allocate resources to diverse productive activities and to appropriate surplus labor in determinate forms. The blend of forces and relations help define the core patterns of class relations and determine the overarching patterns of production, distribution, and consumption within its particular expression within the appropriation of surplus.[2] Primacy, however, is allotted to the relations of production over and above the labor processes and productive forces; that is, technical changes alone do not explain transitions between modes of production.[3] It is from the primacy of the social relations of production that the presence of the political and ideological relations flow. This is why the processes of production and exploitation involve reproduction of the relations of politico-ideological domination and subordination, upon which basis the state is first inserted into the constitution and reproduction of social classes or, in other words, into the class struggle.[4]

Capital as a Social Relation

> Capital is not a thing, any more than money is a thing. In capital, as in money, certain specific social relations of production between people appear as relations of things to people, or else certain social relations appear as the natural properties of things in society. Without a class dependent on wages, the moment individuals confront each other as free persons, there can be no production of surplus-value; without the production of surplus-value there can be no capitalist production, and hence no capital and no capitalist![5]

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[1] *cf.* Chs. 3, 4, and, in particular, 5 (Privatization) above.
[2] Jessop 1990, Ch.3
[3] Poulantzas 2000, 26
[4] Poulantzas 2000, 26-27; A discussion of the state follows below.
[5] Marx 1970, 1005, in Milward 2000, 41-42

Capital is itself a social relation because it is a relation between capital and labor.[1] Every person is involved in the formation of capital, capital that appears in the reified form of a thing, which is reproduced via one's everyday practical behaviour and which exploits labor by extracting surplus value.[2] Within the social relation between labor and capital, labor power is commodified and capital is realized not within production but within exchange. Marx writes:

> If the exchange-value[3] of a product equals the labour-time contained in the product, then the exchange value of a working day is equal to the product it yields, in other words, wages must be equal to the product of labour. But in fact the opposite is true. *Ergo,* this objection amounts to the problem – how does production on the basis of exchange-value solely determined by labour-time lead to the result that the exchange-value of labour is less than the exchange-value of its product? This is solved in our analysis of capital.[4]

The very structure of capitalist relations of production makes labor power a commodity (derived from so-called 'free laborers') and converts surplus labor into surplus-value.[5] Surplus-value, in brief, is the value appropriated by capitalists, but created by the labourer in production (which is different than, for example, usury or money-dealing capital, which creates direct profits).[6] The creation of capital begins within the production of commodities and their circulation in the developed form of trade. As Marx

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[1] Poulantzas 2000, 106; Capital in this sense takes on various forms in the processes of exchange and capital accumulation, such as fixed capital equipment, knowledge, raw materials or inputs, and money (Gill and Law 1988).

[2] Hirsch 1999, 290; Gill and Law 1988, 83

[3] *Exchange-value* is the value of a product derived from human labor that has been produced for the purposes of being sold (i.e., a *commodity*). Commodities, which are not for direct consumption, must have both a *use-value* (of utility to someone) and an exchange-value. Exchange-value is related to the concept of *surplus value*, which is the monetary form of the social surplus product or, put another way, the difference between the value produced by the worker and the value of his own labor power. The *social surplus product* is the product gained from *surplus labor*, which is the labor that accrues to the ruling class over and above the *necessary labor* needed to maintain the producer. In capitalist society, commodity production (i.e., the production of exchange-values) has reached its greatest development. (Mandel 1983)

[4] Marx 1970, 62, in Milward 2000, 41

[5] Poulantzas 2000, 18

[6] Milward 2000, 200

states, "[w]orld trade and the world market date from the sixteenth century, and from then on the modern history of capital starts to unfold."[1]

The Circuit of Capital

A more detailed analysis of productive capital must begin with the economic forms produced by commodity circulation, wherein one finds that its final product is money – the first form in which capital appears.[2] Capital first begins its circulation in the shape of money (some of which is perhaps borrowed from the money-capitalist) that, by definite processes, has to be transformed into capital (plant, raw materials, and employees in the production process).[3] Money-as-money and money-as-capital differ, however, only in their form of circulation. Alongside the process of C-M-C, selling in order to buy with the aim of consumption, the form M-P-C-M^{1}, buying in order to sell, also occurs[4]: Money that describes this form of circulation (M-P-C-M^{1}) becomes capital and is already capital in itself, that is, by its very destination.[5] The result of this circulation, then, is the indirect exchange of money for money, but now with an increase in value. That is, out of M-P-C-M^{1} production emerges a mass of commodities for sale that, when sold, reappears in the form of money with the surplus-value extracted from the overall production process.[6] The importance of the movement M-P-C-M^{1} is that it differs in content and motivation from C-M-C because the first process of M-P-C-M^{1} is mediated by money itself rather than by a commodity and its formative purpose is exchange-value (whereas C-M-C was use-value).[7] Productive capital then repays the borrowed funds, plus interest, to money capital. Thus, to the money-capitalist the circuit of finance capital is simply M-M^{1}, where the interest earned is simply profit, not surplus-value.[8]

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[1] Marx 1990, 247; World-systems theorists likewise adopt a similar point of departure for the emergence of the capitalist world system from which point the world's labor was divided into core, periphery, and semi-periphery (see Wallerstein 1979; Chase-Dunn 1989; Arrighi 1999).
[2] Engels 1868; Marx 1990, 247; 'Money', briefly, is a form of a commodity that serves as a measure of value and, as such, is similarly a medium of circulation. Moreover, money "is independent of all limits, that is it is the universal representative of material wealth because it is directly convertible into any other commodity." (Marx 1990, 227-230)
[3] Engels 1868; Gowan 1999, 12
[4] C – commodity; M – money; P – production; M^{1}—money with an increase in value
[5] Engels 1868; Marx 1990, Ch.4
[6] Gowan 1999, 12; The relationship between the productive sector and the financial sector, whose relationship is mediated by the state, is such that the first is determinant while the latter is dominant. This is so because the productive sector produces the stream of value from which financial capital ultimately gains profits either directly or indirectly (Gowan 1999, 13).
[7] Marx 1990, Ch.4
[8] Gowan 1999, 12

In the processes of M-P-C-M[1] the value originally advanced not only remains intact while in circulation but increases its magnitude by adding to itself a *surplus-value* (valorization); that is, the circulation of money as capital is an end in itself because the valorization of value takes place only within this constantly renewed movement, which implies that the movement of capital is therefore limitless.[1] Capital, in the process of M-P-C-M[1], is thus in a constant process of expanding its value while changing from one form to another without becoming lost in this movement; "it thus becomes transformed into an automatic subject."[2] In short, capital is a value augmented by a surplus-value.[3] Hence, the very reproduction of capital and capitalism is dependent upon surplus-value, which is only produced by labor, thereby defining 'capital' as a relationship between capital and labor.[4]

In their ability to expand their value, all capitals are identical, or what Marx calls 'capital-in-general', which includes the three moments within the social circuit of capital, namely money capital, productive capital, and commodity capital.[5] Capital controls the means of production and thereby penetrates directly into production.[6] Thus, capital is a coercive relation between capital and labor which is attached to things, be them commodities or money; in the money form, capital comprises the accumulated unpaid surplus labour of the past appropriated by the capitalist class in the present. Capital is thus the dominant relation of capitalist society.[7] Moreover, capital is a relation that moves within the international sphere of the labor and exploitation processes in which capital can only reproduce itself through transnationalization, regardless of whether its various forms may appear deterritorialized or a-national.[8]

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[1] Marx 1990, 252; Engels 1868; Mandel 1983
[2] Marx 1990, 255
[3] Mandel 1983, 30
[4] Altvater 2002; Poulantzas 2000
[5] Soederberg 2001b, footnote 2, 79; Mohun 1991, 70; a further distinction should be made with capitals, which denotes the social class who owns the means of production, or capitalists.
[6] Mandel 1983, 30
[7] Mohun 1991, 71
[8] Poulantzas 2000, 106

Capital Accumulation and the World Market

> The tendency to create the *world market* is directly given in the concept of capital itself. Every limit appears as a barrier to be overcome.[1]

Capital accumulation, indeed capital itself whose movement is limitless, is neither recent nor can it be sufficiently grasped within analytical models that solely privilege the national state as an autonomous thing with external relations.[2] Rather, progressive capital accumulation, which has always been global in character, ought to be conceptualized as a process that transpires within the national economy as part of the world market; therein, the world market is best understood as organized in the form of many national economies that constitute its integral components, thereby following a methodological primacy of the totality over individual instances.[3] As von Braunmuhl argues, "[t]o determine the essence of things from their most fully developed form of appearance thus means that the nation state as a particular form should no longer be taken as the level on which the movement of capital is to be analysed; this should be the world market as a totality."[4]

It follows that because capital, as the dominant social relation within the capitalist relations of production, innately knows no spatial boundaries, so is the exploitative relation between capital and labor also global.[5] The processes of capital formation and labor exploitation, however, are coterminous with the modern state, as it is only through these global yet nationally-rooted relations that labor and capital can reproduce themselves.[6] The so-called internationalization of 'already global in nature' capital accumulation is much less about discerning what occurs when capital escapes the state (for that would suggest capital were somehow external to the state and the wider social relations of capitalist production) as discerning the problems capital encounters while ensuring state-organized capital-formation functions continue, such as the reproduction of

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[1] Marx 1973, 408; emphasis in original
[2] von Braunmuhl 1978, 162; A distinction should be noted between the political state and the national state, with the former being a moment of the totality of capitalist social relations, which is global, and the latter, being nation states such as Costa Rica, Canada, etc. (Holloway 1995, 122-23).
[3] von Braunmuhl 1978, 162; Holloway 1995, 122
[4] von Braunmuhl 1978, 163
[5] Holloway 1995, 123
[6] Poulantzas 2000, 106

labor-power and the organization of the capitalist class.[1] Today, states are already or are more and more willing to perform these functions so that foreign capital is serviced on the same basis as domestic capital.[2] What the above also suggests is that questions of power are not properly addressed from state-vs.-state nor state-vs.-market standpoints, but rather from a position that observes an (im)balance of power between capital and labor within the world market.[3]

The epistemological framework established above, of exploring the valorization of capital not solely from within the confines of the state but as a state within the world market, is paramount to the overall historical materialist analysis because the world market is the sphere wherein capitalism's contradictions manifest:

> [the world market is the place] in which production is posited as a totality together with all its moments, but within which, at the same time, all contradictions come into play. The world market then, again, forms the presupposition of the whole as well as its substratum. *Crises* are then the general intimation which points beyond the presupposition, and the urge which drives towards the adoption of a new historic form.[4]

Thus, in terms of understanding why capital enters into crisis and the role of state, the totality of the world market must form the basis of analysis because its characteristics as "an international, state-organized and specifically structured, all-encompassing effective international context of competition, within which statehood arises and consolidates itself and states form their characteristic economic, social and political structure."[5] Global capital does not, then, simply by-pass states because the very processes of capital accumulation are in fact authored and organized by states.[6] Rather, capital influences the various forms of states by encompassing capitalist states within a "system of interconnections which is in no way confined to the play of external and mutual pressures between juxtaposed states and capitals … states themselves take charge of the interests of the dominant imperialist capital … in its complex relation of internationalization of the

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[1] Panitch 1994, 65
[2] Panitch 1994, 65
[3] Soederberg 2001b, 78
[4] Marx 1973, 228; emphasis added
[5] von Braunmuhl 1978, 167
[6] Panitch 1994

domestic bourgeoisie that it dominates."[1] In sum, capital, as the dominant social relation, colors the very structure of the capitalist system of formally related states, which facilitate the global reproduction of capital, who consecrate the conditions by which capital can play one government off another in search of concessions to overcome barriers to capital valorization (e.g., labor's organizational capacity to draw higher wages).[2] However, due to the contradictory nature of the capital relation, recurrent crises are predestined – if unpredictable.[3]

II
UNDERSTANDING CRISIS

Often, mainstream analyses of crisis begin and end with competition but, unlike the claims made from within bourgeois thought, competition alone cannot explain crisis.[4] Crisis, in fact, is not derived from competition, which, according to mainstream account, simply ought to be freer *or* more protected so as to mediate and resolve the economic crisis.[5] Competition, rather than being the 'alpha and the omega' of crisis, simply offers a useful beginning to understanding crisis solely because it presupposes the class relation between capital and labor *and* because competition is the form in which individual capitalists experience the wider crises of overproduction.[6]

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[1] Poulantzas 1975, 73
[2] drawn from Gill and Law 1988, 92
[3] Soederberg 2001a, 107
[4] Bonefeld 1999; Robert Brenner offers a similar take on competition with a Marxist-based explanation where crisis becomes a reformation of 'supply and demand' tenets from the viewpoint of capitalist competition (i.e., competition between capital and capital). Brenner's theory of crisis also presumes value is derived from competition, wherein labor is excluded and, as such, the centrality of class struggle and the preservation of capitalist relations through progressive exploitation of labor (Bonefeld 1999; see also Brenner 1998 & 2001). These accounts differ from the concept of crisis presented here.
[5] Bonefeld 1999; For example, the UNDP (United Nations Development Programme) Report 1999 argues that globalization, which they understand as the progressive liberalization of markets, offers great opportunities for human advancement, so long as it is accompanied by 'stronger governance' (i.e., it should be more protected via a few more guidelines). On the other hand, the IMF (International Monetary Fund) argues that crises in the 1990s have been caused by financial panics in reaction to policy errors within emerging market governments (i.e., capitalism should be freer so as to create more trust) (IMF 1998, in Soederberg 2000; *cf.* Patomäki 2001 for a discussion of trust, capitalism, and financial crisis).
[6] Bonefeld 1999; Clarke 1988

Competition and the Crisis of Overaccumulation/Overproduction

Building upon the above analysis of capital, it is only from within the context of global capital accumulation and the world market as a totality that we can fully grasp what happens when capital accumulation enters crisis within the wider capitalist mode and relations of production.[1] Within this context, crisis is understood as a crisis of the overaccumulation of capital and of the overproduction of commodities triggered by a decline in the average rate of profit.[2] Capitalism is a social formation that engenders a permanent tendency to overproduce, a tendency in which 'crisis' is the *normal* state of affairs and *prosperity* has to be explained via special factors.[3] Crisis, however, is more than just 'economic' for it involves not only the material restructuring of the relations of production but also political and ideological struggle aimed at overcoming recurrent barriers to progressive capital valorization. As we shall see in Chapter Five, the privatization of state-owned enterprises in Costa Rica is one example of how crisis, class-struggle, and ideological restructuring are intimately connected.

Competition is an expression of the contradiction between the forces of production and the relations of production.[4] That is, in the objective need to persist, capital must be constantly accumulating within a competitive environment that both internally and structurally exerts power over individual capitalists to compete.[5] Competition, as such, comprises the root of capitalist society for without competition there would be no major economic incentive for accumulating capital.[6] Marx refers to this phenomenon as the coercive law of competition that imposes itself upon capitalists as the motives of their operations.[7] Marx states:

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[1] Poulantzas 2000, 212

[2] Mandel 1995, 438; Holloway and Picciotto (1991), along the same lines, define crisis as crisis of the capital relation – of class domination and of accumulation that involves the totality of capitalist social relations. The tendency for a decline in the average rate of profit is simply the economic expression of a process of class struggle (ibid.). Crisis, in the following analysis, will be treated from the perspective of overaccumulation/overproduction as an objective and inherent condition of capitalist mode of production as opposed to a subjective crisis of underconsumption (see Regulation School/Aglietta) which can be regulated/eliminated within a regime of intensive accumulation (Clarke 1988). So too is this approach distinct (though not mutually exclusive) from 'crisis of hegemony', or 'general crisis of the state', found within a Gramscian conceptualization, which is more a crisis of political authority and loss of ruling class consensus (Gramsci 1999; Carnoy 1984, 78).

[3] Amin 1997, 48; Clarke 1988

[4] Clarke 1988,1994

[5] Gill and Law 1988, 84

[6] Mandel 1983, 38; Bonefeld 1999

[7] Marx 1990, 433

> We thus see how the method of production and the means of production are constantly enlarged, revolutionized, how division of labor necessarily draws after it greater division of labor, the employment of machinery greater employment of machinery, work upon a large scale work upon a still greater scale. This is the law [of competition] that continually throws capitalist production out of its old ruts and compels capital to strain ever more the productive forces of labor for the very reason that it has already strained them -- the law that grants it no respite, and constantly shouts in its ear: March! march! This is no other law than that which, within the periodical fluctuations of commerce, necessarily adjusts the price of a commodity to its cost of production.[1]

Competition rests upon two basic ideas: one, there must be an unlimited market without economic restrictions or precise geographic borders; two, there must exist a multiplicity of decision centers, especially in investment and production matters.[2] Production within an unlimited market under competitive conditions increases production that, in turn, reduces costs and increases surplus-value thereby providing the means for dominating a competitor by underselling them.[3] The crisis of overaccumulation/overproduction, as such, appears in the form of an intensified struggle between capitals and labor, the result of these struggles being conditioned by the historical institutional forms of competition, of credit, and of industrial relations, behind which is the institutional form of state.[4] However, to move beyond competition as an objective cause, we must further examine overaccumulation and overproduction.

Overaccumulation and Overproduction

In order to preserve their existing stock of capital, individual capitals must intensify labor, depress wages, dismiss workers, introduce new production methods, find fresh markets, and seek new workers who are more easily disciplined.[5] Attempts to relieve competition intensify the exploitation of labor or, likewise, the overaccumulation of

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[1] Marx 1849
[2] Mandel 1983, 38-40
[3] Mandel 1983, 40-41
[4] Clarke 1988, 84
[5] Bonefeld 1999; *cf.* Richards 1997 and Brenner 1998

capital.[1] In the eyes of the capitalist, the resolution to crisis depends upon the transformation of the relations between necessary and surplus labor, not simply work intensification and increased labor productivity via new means of production.[2] In this sense, what *first* initiates crisis is, in fact, the development of labor's productive power because labor produces more capital than can be realized within profit rates sufficient for continued progressive accumulation.[3] To restate, the rate of profit falls not due to labor being *less* productive but rather because labor is *more* so; thus, both the rise in the rate of surplus-value and the fall in the rate of profit are simply distinct forms by which increasing labor productivity is expressed under capitalism.[4] Ironically, then, capitalist reproduction engenders its own limitations and contradictions as the very existence of the means of production *as* capital presupposes the limit to capital's voracious quest to preserve its existence by progressively expanding production *for the sake of production*.[5] The solution to capital's crisis (i.e., for capital to maintain its existence, which, if we recall, logically depends upon augmenting its value) consequently lies in the widespread destruction of labor's productive capacity and the dismissing of labor-power – a power, again ironically, upon which capital depends for the production of value – hence, we see the inherent contradiction of capital and the crisis of overaccumulation.[6] Marx succinctly states:

> [capital] therefore restricts labour and the creation of value … and it does so on the same grounds as and to the same extent that it posits surplus labour and surplus value. By its nature, therefore, it posits a *barrier* to labour and value creation, in contradiction to its tendency to expand them boundlessly. And in as much as it posits a barrier *specific* to itself, and on the other side equally drives over and beyond *every* barrier, it is the living contradiction.[7]

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[1] Bonefeld 1999
[2] Bonefeld 1999
[3] Bonefeld 1999; That is, capitals seek to augment labor's productivity by introducing machinery that, in fact, does augment labor's productive power on the grounds of reducing variable capital [that "part of capital that is represented by labour power" (Milward 2000, 201)] vis-à-vis constant capital ["that portion of the value of materials and machinery that is used up in production and added to the value of the product" (Milward 2000, 198)], which leads to a fall in the rate of profit because the amount of exploitable labor has been diminished in relation to constant capital (Bonefeld 1999).
[4] Marx in Bonefeld 1999, 9
[5] Bonefeld 1999, 26-27
[6] Bonefeld 1999, 27
[7] Marx 1973, 421

The inherent, living contradictions that lead to crisis as a *normal* state of affairs within the capitalist mode and relations of production implies yet another moment within this totality, namely the capitalist state – the third dimension of the triad of interrelated moments defining my historical materialist framework.

III
UNDERSTANDING STATE

Many diverse, rich, and nuanced debates have and continue to rage over the 'nature', so to speak, of the state[1]; this thesis, however, is not the place to enter into this lively body of literature. I choose, instead, to follow Poulantzas' concept of state, which argues the foundational proposition that there cannot be a 'general theory of state-political', just as there cannot be one of the 'economy-relations of production' as these moments vary according to the mode of production. As such, neither the 'state' nor the 'economy' can be theorized as constant and reified objects.[2] Nevertheless, in order to help make sense of crisis and change in the material world, critical scholars can pursue a theory of the 'capitalist' state situated within the capitalist mode and relations of production.[3]

A theory of the capitalist state begins with the proposition that the state cannot be isolated from the history of its constitution and reproduction. Moreover, the state understood historically goes hand in hand with the concepts of capital and crisis, as state activities are integral to the wider processes of capital valorization and accumulation.[4] What this relationship explicitly implies is that the capitalist state and the economy are not separate structures; rather, they are two dynamic and historical moments of the same conflictual relations of production[5] That is, while the 'economy' is the site of the reproduction and accumulation of capital and the appropriation of surplus-value, the 'political' field of the state (and corresponding sphere of ideology) has *always* and in different *forms* been present within the configuration and the reproduction of the relations of production.[6]

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[1] See Jessop 1990; Jessop 1982; Carnoy 1984; Knuttila 1987; Brodie 1997; MacKinnon 1989; Gramsci 1999; Pringle and Watson 1992; Gilpin 1987; and many others not listed here.
[2] Poulantzas 2000, 19
[3] Poulantzas 2000, 19
[4] Poulantzas 2000, 25; Lebowitz 1995, 199; Soederberg 2001b
[5] Soederberg 2001b, 62
[6] Poulantzas 2000, 17

How ought this interrelation between the state and the economy to be analytically framed?

Poulantzas' Concept of State

> People see, feel and continually refer to the economic role of the present-day State. But certain theorists of power still do not concern themselves with such coarse subjects, even if this does not prevent them from holding forth on Princes, Despots and Masters. They occasionally deplore, in passing, the phenomena of inflation, unemployment and economic crisis, but these are hardly relevant in the higher spheres of Power, State and the Political in which they move. Let us leave them in their clouds: for the economic role of the State is terrifyingly real.[1]

Although perhaps by simple chance, Poulantzas' allusion to 'clouds' resonates a much earlier critique of idealism leveled against Socrates by the playwright and ancient philosopher Aristophanes. Aristophanes challenged the coveted condition that "[i]f I consider the things above from below on the ground, I would never discover them."[2] – or, the Socratic ideal that one must be somehow separate from and above society in order to understand it. However, it is fundamentally from within, and not above, the basic struggles of everyday life – class struggles that traverse the social relations of production – that we discover insights into the reality of capitalism's exploitative social relations.[3] Hence, when Poulantzas embarked upon his last work, *State, Power, Socialism* with the question, "[w]ho today can escape the question of the [s]tate and power?"[4] he signaled what he believed to be of central importance – the centrality of state within the reproduction of capitalist social relations of production and the fact that no one is outside of nor capable of avoiding these pervasive relationships.

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[1] Poulantzas 2000, 163

[2] Aristophanes' *Clouds*.

[3] By basic struggles I am referring to the perennial class struggles between the owners of the means of production (i.e., the bourgeoisie) and those exploited for their labor-power in the creation of surplus-value (i.e., the proletariat). While I do not even pretend to assume that these two categories are exhaustive of struggle, even within the capitalist mode of production, this thesis will not delve into the expansive areas of the many cross-cutting classes (e.g., petty bourgeoisie) nor other important struggles that permeate everyday life (e.g., gender oppression, race and ethnicity, cultural, ecological, etc.).

[4] Poulantzas 2000, 11

To begin to understand power, then, we must understand that the capitalist state, as a moment of the wider social relations of production, is composed of ideological and coercive apparatuses that exhibit a material framework irreducible to mere political domination.[1] Nonetheless, political domination, such as neoliberalism, is ingrained within the institutional materiality of the state, which is neither simply created nor taken over by the dominant classes even though the composition of state action is, indeed, marked by such domination.[2] However, because of the capitalist classes' inability to resolve struggles with labor on their own and because of the inherent contradictions within the capital relation, the state plays the all-important role of organizer and mediator by appearing as a separate entity distinct (or relatively autonomous) from the relations of production, thereby allowing it to 'intervene' in the economy.[3]

Relative Autonomy

To speak of the state (political) and relations of production (economy) within historical materialism immediately raises the question of the relationship between the state and the economy, a debate that has often been posed in the form of the 'relative autonomy' of the capitalist state.[4] Poulantzas argues that relative autonomy is constitutive of the capitalist state insofar as it refers to two factors: (a) the state's materiality as an apparatus 'relatively' separated from the relations of production and (b) the specificity of classes and class struggle within capitalism that is implicit in that separation.[5] In addition, the relative separation of the state and economy is historically specific to capitalism and, therefore, must not be conceived as a particular effect of essentially autonomous moments that are composed of elements that remain constant *no matter* the mode of production.[6] As Poulantzas states: "*The separation is nothing other than the capitalist form of the presence of the political in the constitution and reproduction of the relations of production*…. This separation … [is] two expressions of a single pattern of relations

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[1] Poulantzas 2000, 14; For the purposes of this thesis, I define domination as the asymmetrical class-based capacity to shape historical-structural sites of social action (drawn from Rupert 1990, 432).

[2] Poulantzas 2000, 14; Dominant classes refer to the bourgeoisie, other various capitals, political elites, and organic intellectuals of this class that can be found within any given state but who may not necessarily be dependent upon one single state to ensure the privileges of this class in the capital valorization process.

[3] Panitch 1994, 67; Soederberg 2001[a]; Poulantzas 2000

[4] For a fuller discussion of this debate, see Poulantzas 2000; Jessop 1990, 1982; Carnoy 1987; Knutilla 1987

[5] Poulantzas 2000, 127

[6] Poulantzas 2000, 18; *cf.* von Braunmuhl 1978, Soederberg 2001b

between [s]tate and economy under capitalism"[1] The relative separation is at once *fictitious*, for the state is but a moment of the wider capital relation, and *real*, for in guaranteeing the reproduction of capital accumulation through various forms of intervention the state does not participate directly in the processes of capital valorization.[2] The impetus for change in the relations between state and economy result from changes in the relations of production and should be conceived as 'transformed forms' of the separation *and* of the presence-action of the state in the relations of production.[3] It is from the foundation of a 'fictitious yet real' relatively autonomous state that we see Poulantzas' answer the important question posed by Pashukanis[4]:

> Why does the dominance of a class not continue to be that which it is – that is to say, the subordination in fact of one part of the population to another part? Why does it take on the form of official state domination? Or, which is the same thing, why is not the mechanism of state constraint created as the private mechanism of the dominant class? Why is it disassociated from the dominant class – taking the form of an impersonal mechanism of public authority isolated from society?

Power, State, and Class Struggle

More specifically, Poulantzas addresses Pashukanis' question by conceptualizing the state as a 'condensation of a relationship' thereby by-passing two false understandings of the state as an external relation. In the first, by misunderstanding the state as a 'thing', the state appears subordinated by the dominant class that, in turn, implies that government policy is strictly 'pro-bourgeois' and instrumentally exercised over the state by a dominant capital fraction.[5] In the second, misunderstanding the state as a 'subject', the state appears to actually subordinate the dominant classes and arbitrate between social classes via its own unitary, rationalistic, and objective will.[6] Power, within these two mystifications, appears as a quantity or a zero-sum game, when in fact power is a *relational field* that is intimately linked to the class-based state: In other words, *power* is

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[1] Poulantzas 2000, 18-19, italics in original; see also Soederberg 2001b
[2] Soederberg 2001a, 106; Poulantzas 2000
[3] Poulantzas 2000, 19
[4] Pashukanis 1923/1951, in Holloway 1995; Holloway (1995) adds: "This question eventually cost Pashukanis his life, since its implication, namely that the state is a specifically capitalist form of social relations, was incompatible with Stalin's attempt to build a statist 'socialism in one country'."
[5] Poulantzas 2000, 131
[6] Poulantzas 2000, 131-32

the capacity of one class to realize its interests in opposition to the capacity and interests of other classes.[1] Neither the 'state' as 'thing' nor 'subject' adequately accounts for how decisions are made within the state because neither can grapple with the problem of the *internal* contradictions of the state.

In contrast, Poulantzas' framework of analysis centers upon the nature of social classes, the role of state, and the reflexive effect of this class conflict back upon the state. The state is inserted in and defined by class relations (the "structures" of capitalist society), while at the same time being a factor of unity and regulation of the social system in which it functions.[2] The state, as a social relation, is the *site* of the political condensation of struggle, which is not external to the relations of production, but instead penetrates them and is constitutive for them.[3] In this light, the capitalist state does not simply encompass negative and restrictive functions, but also positive ones insofar as the state transforms and creates reality, but not as a bearer of power in and of itself because the state is a *specific material condensation* of a relationship of forces among classes and class fractions.[4]

The Power Bloc and Dominant Classes

The capitalist state is historically constituted so as to intervene and organize the progressive valorization of the dominant relation, *capital*, and manage its flipside, *crisis*, through changing forms of exploitation and domination of labor.[5] Foremost, the capitalist state organizes and represents the dominant classes. In other words, long-term politico-economic interests are coordinated within the state within a *power bloc* – a bloc composed of a number of domestic and, increasingly, foreign capital fractions (e.g., in Costa Rica, these include finance, industrial, commercial, and agro-export). Given a relational concept of *power*, state policy determination is organically linked to and in the favor of the *power* bloc (though not instrumentally). Therefore, as a reflection of the

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[1] Poulantzas 2000, 147; It is in this sense that I reject, in what appears to be a zero-sum concept of power, Strange's question: "Is it governments that have become weaker or more irresponsible, or markets that have become stronger and more unruly?" (1998, 18).
[2] Carnoy 1984, 97
[3] Hall 2000, xiii.
[4] Poulantzas 2000, 30, 129; emphasis in original; While I recognize that the question of social class and what social classes there are and how they are each composed is not fixed and as yet settled (if ever to be), it is a debate not to be entered into here. For a more in depth discussion, especially of the so-called transnational capitalist class, see Mann 2001-2002; Arrighi 2001-2002; Moore 2001-2002; Went 2001-2002; Van Der Pijl 2001-2002; Robinson 2001-2002
[5] The following section is taken from Poulantzas 2000, Part 2, Ch.1

divisions and contradictions found within the state, policy results from class contradictions and struggle, which is written into the very structure of the state as a conflictual social relation.

While the fundamental class struggle is between the dominant and popular classes, so too does the power bloc encapsulate internal contradictions and conflicts that result in specific concentrations or alliances being formed around a given interest (e.g., the post-World War II rally behind production capital). The contradictory and conflictual relationships and alliances that form between these capital fractions *create* the need for unity of the bloc. Unity must be organized by the state, but it is a unity that forms "*contradictory relations enmeshed within the [s]tate.*" Rather than a monolithic and consistent entity, the state is a strategic field of intersecting power networks, a fluctuating element of which includes historically determined power blocs.

As such, state mechanisms, modes, and decision-making centers are reorganized through struggle such that they become impermeable to all but hegemonic capital fraction interests. In turn, these metamorphosed power centers (e.g., finance in the post-Bretton Woods era[1]) become foci for altering state policy and managing decisions taken elsewhere within the contradictory state that may favor other competing fractions of capital. It is in this sense that the power bloc has a specific materiality within the institutionalized state. Unity of state power is established, then, via state apparatus reorganization, through which certain apparatuses are subordinated to others. Domination is manifested within particular state apparatuses that crystallize the interests of a given dominant capital fraction (e.g., finance) – the dominant capital fraction within the power bloc thus assumes leadership through wider class struggle, struggle which is also played out within the power bloc between capitals. The hegemonic capital fraction's dominance is matched by a crystallization of the state's politico-ideological role vis-à-vis the dominated classes, whose struggle likewise inscribes the state's particular character.

The State and Popular Classes

The contradictions and internal fissures that shape policy and state functions equally depend upon the conflicts between the power bloc and popular classes, which are brought together through state apparatuses and a series of fluctuating class compromises that aim

[1] *cf.* Ch.3 and 5 below

to reproduce the capitalist power bloc's hegemony.[1] The reproduction of capitals' hegemony succeeds because the state unifies and organizes the power bloc while disorganizing and dividing the popular classes, effectively polarizing the popular classes in their class-based opposition towards the dominant classes by throwing various obstacles in front of them to thwart class organization.[2] As the process is reflexive, the state must at times impose certain conditions upon capital fractions to secure the material compromises reached, which are deemed integral to continued hegemony.[3] What we see, then, is a state that frankly "bathes in struggles that constantly submerge it" insofar as the popular classes and their struggles, as well as the power bloc and their internal strife, determine the material presence of the state as a condensation of their struggles and compromises.

The popular classes' struggle is present and is expressed within the state's material framework, a material framework that is organically linked to the social relations of capitalist production and division of labor. However, while dominant classes exist in the state through apparatuses as crystallizations of their power, the popular classes do not.[4] Rather, their state-existence is formed of 'centers of opposition' to the dominant classes.[5] Popular classes cannot seize overall power within the state because of the dominant classes' unity of state power and their capacity to shift centers of power from one

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[1] The following section is taken from Poulantzas 2000, Part 2, Ch.2; Here, popular (or dominated) classes refer to those people who typically must resort to selling their commodified labor as a means to subsistence living. Again, due to limitations, no attempt is made to delineate the many specificities and crossing identities, such as gender, ethnicity, geography, etc., within these popular classes. Suffice it to say, common to all is the experience of exploitation due to the encapsulating structure of the capitalist relations of production. An example of fluctuating class compromises is the restructuring from a welfare to a neoliberal state; refer to Chapters 3 and 5.

[2] For more detailed examples of this form of domination through division, refer to the effects public sector privatization and the increasing centralization of labor within the neoliberal state-form (Chapters 5 and 3).

[3] For example, the social compensation packages that accompany most neoliberal structural adjustment programs administered by the IMF and World Bank, as well as the USAID (see Ch.3).

[4] Gill and Law concur, suggesting that there is a striking contrast between the ability of capital and labor (popular classes) to shape long-term policy within the capitalist relations of production. For example, the state is restricted by its capitalist constitution because of the more direct involvement of capital than popular classes insofar as capital has a more enhanced capacity to discipline the state due to the state's need for capital, particularly in the form of money-capital (Gill and Law 1988, 87).

[5] It is interesting to note that from this basis Poulantzas argues that it is a grave error to believe that because the popular classes maintain a presence that they could ever hold lasting power in the state without radical transformation of the state. Examples of 'centers of opposition' would be public sector unions and, to some degree, the earlier semi-autonomous state-development corporations of Costa Rica.

apparatus to another when the relationship of forces within any given power configuration seems to swing in favor of the popular classes.[1] The very structure of the domination-subordination relationship within the capitalist state not only maintains the dominated classes within the state, but maintains them *as* dominated classes.

Popular struggles also figure into the contradictions found within the power bloc due to the tendency toward recurrent crises within the capitalist mode of production. Fractions of capital will seek to establish different relationships with the dominated classes, especially in crisis times, so as to pursue policy options most beneficial to themselves, which may be in conflict with other fractions within the power bloc. It is wrong to believe that the power bloc, while in general agreement over the reproduction of relations of subordination and exploitation, always acts in unison or in a single voice. Contradictions manifest, for example, when choices must be made over which state form (e.g., liberal, interventionist, etc.) is to be pursued in order to overcome barriers to progressive capital valorization. Popular struggles are written into the institutional materiality of the state but not, however, not concluded in the state as its materiality but carries the traces of these 'muted and multiform' struggles, struggles that are written into the state's very configuration as the material condensation of a given class relationship.

Conclusion

By questioning the interrelationships between capital, crisis, and state within the wider social relations of production, we see that there is something unique to the antagonistic capitalist social relations that are based upon a form of exploitation that does not occur openly. Within the wider social relations of capitalist production, the capital relation entails predestined if unpredictable crises. Recurrent crises provide the objective rudiments for the rise of a mediating and intervening state, a capitalist state inscribed by the dominant capital relation. The state is important as a moment of the wider relations of production because it mediates disputes and channels resistance away from the economic sphere (relations of production) to the political sphere (the state), effectively mitigating class struggle while perpetuating the progressive exploitation of labor – in the central aim of overcoming barriers to capital valorization and reproduction of labor power. The dominant capital relation engenders class struggle insofar as its realization

[1] A clear example of this is the shifting of power centers towards finance and away from production under neoliberalism in the post-Bretton Woods era (see Ch.3 and 5).

depends upon the commodification of so-called 'free labor' and the ownership of private property, two elements guaranteed and reproduced by the state. In turn, class struggle between the dominant and the popular classes thereby inscribes the very materiality of the contradictory state as a condensation of a given class relationship. This understanding is in stark contrast to common sense approaches that take the state as a reified 'black box', capital as something that can reproduce itself, and crisis as something that can be overcome via more or less regulation. As such, the historical materialist application of the triad of interrelated moments, namely capital, crisis, and state, offers the most complete analytical framework to interpret the emergence of neoliberalism in Costa Rica because it moves beyond common sense discussions that fail to explore underlying exploitative social relationships and forms of political domination and, therefore, cannot address the foundational questions of "who benefits?" and "why?" from neoliberalism as a new form of political domination.

CHAPTER THREE

NEOLIBERALISM AND NEODOMINATION IN COSTA RICA: CAPITAL, CRISIS, AND STATE

Overall, I argue that contrary to dominant common sense understandings, the emergence of neoliberalism in Costa Rica is best understood as a new form of political domination. That is, because neoliberalism purports that all social, political, and ecological problems can be resolved via more direct exposure to market competition, preexisting social relations of production and class compromises must be forcibly restructured. Neoliberal restructuring intensifies and deepens the subjugation of popular classes and labor under capital, especially finance capital. *Chapter Three* constitutes the fulcrum of this overarching thesis by specifically analyzing the 1980s emergence of neoliberalism in Costa Rica. Following the historical materialist analytical framework outlined in *Chapter Two*, I suggest that neoliberalism's emergence must be analyzed by addressing the class-based conflicts realized amongst the interrelated triad of capital, crisis, and state, which are embedded within the totality of the world market and contradictory capitalist relations of production. I will approach this argument by first looking at US hegemony and the international dynamics of the 1980s and then specifically at Costa Rica within the world market.

I
AMERICAN HEGEMONY

Pax Americana

Germane to the following argument is the idea that socio-economic change is driven by contradictions within the social relations of production, change that in turn makes the continuation of a given set of historical class compromises no longer possible.[1] As such, within the contradictory capitalist relations of production, the dominant classes must constantly revolutionize the relations of production, exploitation, and forms of domination in order to survive as dominant classes and ensure the progressive valorization of capital.[2] One particular set of class compromises and relations of

[1] Robinson 1998
[2] Panitch 1994

dominance were embodied within the Bretton Woods system (BWS) that was created in 1944 to re-establish a collapsed global credit system – but one that maintained control of capital movements, called for the collective management of exchange rates, and was consistent with domestic aims and ambitions of the strongest post-war economies, most notably the USA.[1] The BWS was characterized by the expansion of the capitalist world market insofar as it penetrated more marginalized and peripheral areas guided by the central *ethos* of wealth creation based on the production of goods and services.[2] Referred to as *Pax Americana*, the expansionary world market was itself centered around the US domestic economy and was international in scope; therein, the US exercised hegemony, that is, the exercise of leadership within a given power configuration characterized by the collective domination of major capitalist countries in the core over those in the periphery.[3]

Reconstituting US Hegemony: Economic Globalization and Neoliberalism

In the late 1960s and 1970s, skepticism mounted, particularly in the US, towards the guiding Keynesian expansionary policies of the hegemonic *Pax Americana* that saw escalating inflation alongside downward pressure on profits, the collapse of investment, and an increase in unemployment.[4] The nascent crisis became increasingly acute and internationalized due to the growing commercial deficit in the US, Nixon's subsequent decision to unpeg the fixed Gold-Dollar Standard in 1971 opting for a pure Dollar Standard, and the 1973 Oil Crisis with its associated rise in circulating petrodollars and skyrocketing third-world debt; at the same time, the movements of multinational corporations became increasingly global as they sought to regain falling profit levels.[5] However, contrary to economistic critiques of the BWS's and statist policies' failures, the 'stagflation' that occurred in the 1970s was primarily a result of a *balance* of class forces

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[1] Rupert 1990, 440; Cohen 1977; Germain 1997, 75; Patomäki 2001, 43; The BWS formed the historical material setting of the 1982 debt crisis in Costa Rican and much of Latin America; it is a system that is itself a reflection of earlier material and structural conditions, whose historical dynamics will be explored further in Chapter Four. Because the BWS was still a system within the capitalist mode of production, the exploitative capital relation was present, though perhaps not as coercive as in the post-BW era (*cf.*Rupert 1990).

[2] Germain 1997, 77-8

[3] Germain 1997; Dumenil and Levy 2002; Cohen 1977

[4] Clarke 1988; Brenner 1998

[5] Lipietz 1992; also see Strange 1986 and Reifer 2000; As a strategy for regaining hegemony, the US was actually the catalyst behind the oil price rises to minimize Western Europe and Japan's economic power and gain access to the inevitable rise in petrodollars through their recycling (Gowan 1999, 21).

domestically and globally wherein workers demanded improved wages and conditions.[1] At this conjuncture, then, *Pax Americana* faltered and the world market began to enter into a new phase of progressive capital accumulation that is now referred to euphemistically as globalization in order to restore earlier levels of profit and overcome economic crisis.[2]

In brief, economic globalization is a class-based political strategy shaped by the dominant global capital relation, colored by neoliberal ideology, and designed to overcome economic crisis – crisis that appears as competition between capitals but actually takes the form of persistent barriers to capital valorization. In other words, globalization is the sum total of a wide range of political, economic, and social processes of internationalization taking place at a global level.[3] While these processes are shaped by capitalist economic structures and their crisis-ridden dynamics, globalization is a profoundly political process, which is state-policy-dependent and state-authored.[4] Economic globalization and neoliberal financial orthodoxy have risen in tandem within new class-based accumulation strategies designed to simultaneously reconstitute US power globally.[5] That is, on waves of liberalization, finance capital has gained structural primacy over the real economy of productive capital as it rushes to the peripheral areas within the world market marked by the highest profits and least protection for capital flows thus creating more intense inter-state and inter-corporation competition whose end has seen a more pure form of financial speculation and economic volatility (often at the expense of the popular classes).[6] These specific liberalization measures were largely initiated by the US government (and other advanced capitalist states) and finance capital's hegemonic interests in order to overcome waning productivity and profit levels and retrench US power so as to secure control over major political-economic outcomes globally.[7] The crux of America's reconstituted power lay in seigniorage – the privilege of not being held to the same balance of payments constraints that other states incur due

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[1] Clarke 1988, 86
[2] Palan 1994, 45; Cox 1996; Gowan 1999, 20; Brenner 1998; Soederberg (2001) argues that the demise of the BWS signaled the shift back to a period dominated by the freedom of the market, or the first of two phases characterized by Polanyi's "Double Movement'.
[3] Cerny 1999
[4] Drawn from Cerny 1999; Goss and Pacheco 1999; Gowan 1999; Cox 1996; Panitch 1994; Soederberg 2001c
[5] Gowan 1999; Patomäki 2001; Soederberg 2001; Richards 1997
[6] Reifer 2000; Strange 1986, 1998; Cerny 1993; Gowan 1999; Brenner 1998
[7] Gowan 1999

to their ability to swing the price of the dollar under the pure dollar standard.[1] The Dollar-Wall Street Regime (DWSR) captures the essence of this emergent global dynamic wherein the centrality of the dollar directs people towards Wall Street for finance and the strength of Wall Street as a financial centre reinforces the dollar as an international currency.[2] Integral to reconstituted hegemony, the DWSR allows the US, as the dominant power, to make up many of its own rules by deciding the price of the dollar and, therefore, have deciding influence on the evolving dynamics of international financial relations.[3]

In this sense, neoliberalism, as the dominant ideology of the DWSR, is a post-BWS class-based strategy designed to subordinate popular classes' aspirations to the exigencies of progressive capital valorization.[4] To reconstitute political domination in the post-BWS and DWSR era, neoliberalism had to break pre-existing class-configurations characterized by the BWS and the Keynesian welfare-state, which maintained a strong social role in the control of finance and credit.[5] The material elements of neoliberal policy are founded upon specific assumptions regarding the benefits of free trade, a particular role of state, and a faith in the redistributive capacity of the market.[6] Advocates of neoliberal ideology are not simply found within the US's power bloc, but also necessarily within other state power blocs that are composed of various capitals, increasingly under the hegemony of finance, and buttressed by state technocrats, organic intellectuals, and governmental elites.

To overcome the structural imbalance or crisis of America productive capacity and hegemony, the largely American-led 'New Right' monetarists argued for a new policy regime of price stability, restrictive monetary policy, and the aggressive removal of barriers to competition in labor, product, and financial markets so as to allow the free-market to work its magic and regain profits lost to competitive pressures.[7] The advocates

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[1] Gowan 1999, 25
[2] Gowan 1999, 24-25; *cf.* US structural power (Soederberg 2001)
[3] Gowan 1999, 30
[4] Clarke 1988, 86; *cf.* Richards 1997
[5] Dumenil and Levy 2002; Goss and Pacheco 1999
[6] Goss and Pacheco 1999; The core theoretical influences of neoliberalism as a new policy regime are drawn from the following theorists and schools: a) the neoclassical school of economics; b) monetarism (e.g. Milton Friedman); c) rational expectations school (e.g. Sargent); and d) the concept of human capital (Román Morales 1999).
[7] Clarke 1988

demanded the following changes: (1) that the political economy be revised with a new brand of liberal policies in the short and long term, (2) that market distortions initiated by interventionist policies be eliminated, and (3) that growth be re-orientated toward the external sector; each of these have been exemplified during Costa Rica's neoliberal restructuring.[1] The immediate aim and effect of neoliberal globalization was the increased internationalization of production and markets; these results created more severe restraints on national monopoly development models due to the need to constrain wages in order to remain competitive.[2] The conglomeration of neoliberal policies aimed at restoring American power is commonly referred to as the 'Washington consensus', which connotes the re-convergence of liberal mainstream economic policy during the 1980s.[3] The so-called consensus reflected the soul of neoliberalism's development hopes of rapid and sustained economic growth, which sought to open Latin American and other emerging markets to foreign investment and freer financial flows so as to allow the easy repatriation of profit.[4] The consensus functioned within neoliberal orthodoxy and promised states that they *will* receive renewed foreign investment and *will* benefit from such investment once stabilization and structural adjustment programs (SAPs), under the watch of international financial institutions (IFIs) such as the IMF, World Bank, and the USAID, have been instituted, as we shall see below in the case of Costa Rica.[5]

To briefly summarize: the world recessions of 1974-75 and 1979-82 resulted from the initial restructuring under economic 'globalization' required to overcome the crisis of overproduction and falling rates of profit that began in the late-1960s and 1970s. These crises were due to the surplus capacity sustained by inflationary credit expansion and government subsidies; overproduction was liquidated and new class compromises

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[1] Camancho 1996, 30

[2] Lipietz 1994, 31; *cf.* Cerny's concept of a 'competition state'.

[3] Williamson 1990, 1993; The consensus was derived from a *Washington/US Treasury-Wall Street-IMF/WB* complex that integrated key national and transnational capitalist elites, especially those based in finance capital (Cypher 1998). Ten preferential ideologically based policies and strategies to overcome the crisis and re-discipline labor were constructed; they include: (1) fiscal discipline; (2) public expenditure prioritization (e.g., losing "white elephants"); (3) tax reform; (4) financial liberalization; (5) unified and competitive exchange rates; (6) trade liberalization; (7) liberalized foreign direct investment regime; (8) privatization; (9) deregulation; and (10) secure property rights without excessive transaction costs (Williamson 1990, 1993). For a further discussion of the economic logic behind the WC, see Soederberg 2001. The WC was closely associated with the Cold War worldviews of the US's Reagan, the UK's Thatcher, and West Germany's Helmut Kohl (Pender 2001, 399).

[4] Cypher 1998; Pender 2001, 398

[5] Cypher 1998; Goss and Pacheco 1999; Williamson (1993) himself denies that what he has coined the Washington consensus is neoliberal (or neoconservative).

formulated, which paved the way for renewed capital accumulation and the class-based economic boom of the mid-1980s under the hegemony of the US-based DWSR.[1] In this light, the late 1970s and 1980s ought to be interpreted as a sustained capital-offensive against the working class aimed at the destruction of the institutional forms of Keynesianism which had formed the basis of the ability of the working class to realize a consumption norm based on a generalized expectation of rising standards of living.[2]

II

THE EMERGENCE OF NEOLIBERALISM IN COSTA RICA:
An Iron Fist in a Velvet Glove

> *[Costa Rica] is not a country of crisis. There are indeed people who are living them, but not the country.*
>
> - Helio Gallardo, in San José, 1993[3]

World Market, Crisis, and Costa Rica

As a part of the wider capitalist world market's pre-existing material conditions and class compromises, the conjunctural effects of the 1974-75 and 1979-82 world recessions led Costa Rica into a period of economic crisis from which its social relations of productions emerged under neoliberalism and a more aggressive export-led growth model.[4] That is, as linked to crisis of overproduction described above, their particular model of dependent capitalist and import substitution industrialization (ISI) development came to be exhausted by the late 1970s and had to be restructured through the 1980s.[5] The crisis manifested as intensified struggle between capitals and labor, the result of which was conditioned by historical forms of competition, credit, and industrial relations, behind which was the institutional form of state.[6] In turn, capitals strategized to preserve

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[1] Cypher 1989, 57; Clarke 1988, 60; see also Goss and Pacheco 1999

[2] Clarke 1988, 86; The fall in industrialized nations' profits are not entirely unrelated to that of the periphery/poor states. Still, a significant challenge to core states' hegemony arose at the same time, to which the US would respond. Briefly, the periphery's challenge came in the form of the following: (1) a growth share of manufactured exports (2) the inception of local-content laws versus transnational capital (3) political and ideological challenges to the overall capitalist structure through the non-aligned movement, UNCTAD, and UNESCO (4) state-led development (dirigisme) and (5) the OPEC challenge (Cypher 1989, 57-58).

[3] H. Gallardo, social theorist, in Judson 1993,162

[4] Sojo 1991; Judson 1993, 150; Goss and Pacheco 1999; Valverde 1993, 13; Robinson 1998

[5] Robinson 1998

[6] Clarke 1988, 84

existing and renew progressive capital accumulation as follows: one, a generalized repression of workers' wages, rights, and unions; two, the disciplining of labor through massive layoffs and de-capitalization of industry; three, the opening up of the labor market to more competition; four, a reduction in social programs and subsidies; five, the introduction of new production methods; and six, by seeking new markets.[1]

Costa Rica's Lost Decade

The 1980s has been widely considered the 'lost decade' across Latin America with the severity of the debt crisis in Central America being perhaps the worst in post-independence history as testified to by the fact 1990 GDP levels were found to be below 1980 levels.[2] For example, Costa Rica's foreign debt reached 56.8% of GDP or US$2.7 billion in 1980, an early indicator of their deteriorating terms of trade, which eroded significantly across 1980-1985 and greatly hindered their ability to repay loans taken during the 1970s – a situation exacerbated by the Oil Crisis' higher oil prices and interest rates.[3] In particular, the 1982 debt crisis manifested in a drop in industrial production (-4.3% in 1981 and -7.7% in 1982); skyrocketing inflation; dramatic price increases (65.1% in 1981 and 81.8% in 1982); a contraction in public and private investment; rising unemployment and underemployment; a growing fiscal deficit; a drop in external commerce; elevating external debt and an associated strong balance of payments disequilibria; and an overall standard of living decrease for the majority of Costa Ricans.[4] Significantly, external public debt, already high due to the recessions of the 1970s and state enterprise financing, grew even more to a level of $3.825 billion US in 1984 or, in other words, to a level whose service engulfed 44% of the total value of exports between 1983 and 1984.[5]

Emergence of Neoliberal Ideology

While neoliberal ideology had been increasingly salient since the post-1971 collapse of the BWS, not until the severity of the overproduction crisis hit at the 1982 debt crisis' apex did Costa Rican state technocrats, domestic and foreign capital, and the landed bourgeoisie have available the material conditions conducive to executing exhaustive

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[1] Judson 1993, 153; Bonefeld 1999; Richards 1997
[2] Bulmer-Thomas 1991; Molina and Palmer 1997; Sojo 1991
[3] Ghosh, Tanski, and Enomoto 1996; Goss and Pacheco 1999
[4] Valverde 1993, 9, 29; Molina and Palmer 1997; Sojo 1991
[5] Molina and Palmer 1997, 27

socio-economic change, which included liberalization, stabilization, and privatization.[1] For example, just one year earlier in August of 1981, the IMF was expelled by the conservative Carazo Unidad administration (1978-1982).[2] Then President Carazo stated that the unreasonable conditions demanded by the IMF were overtly harming the poor and that Costa Rica need not, by the mere fact of the IFIs proposing adjustments, initiate them to the detriment of the nation.[3] However, with the deepening crisis and election of the new PLN administration, the state, in accordance with neoliberal orthodoxy, was now judged as the source of crisis by IFIs and national power blocs with the common sense solution being 'less state, more market', thereby demanding a redefinition of the role of state away from its direct participation in production.[4] This early 1980s period, then, marked the point at which Costa Rica initiated restructuring towards becoming what has been called a 'staging post' for the incessant flow of capital within the world market organized under the hegemony of neoliberal ideology and 'embedded financial orthodoxy'.[5] In more technical Marxist terms, neoliberalism can be interpreted as a move to suppress surviving domestic subsistence production (C-M-C) and an intensification of capital accumulation from the production-based form of M-P-C-M^1 to a more direct realization of profit via M- M^1(finance capital and usury). Common sense would dictate that Costa Rica was now an emerging market rather than a nation-state, while IFIs would ensure the ascension of neoliberal ideology.

Neoliberal Restructuring: USAID and the PLN

Throughout the post-1982 neoliberal restructuring processes, the vanguard IFIs engaged in Costa Rica included the Inter-American Development Bank (IDB), IMF and the World

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[1] Many have referred to this conjuncture as 'debt crisis as opportunity'. That is, following the 1982 elections, significant neoliberal restructuring of Costa Rican social relations of capitalist production occurred as deep economic reforms were initiated and a very profound relationship with IFIs was established. Some observers surmise that this emergence succeeded because Costa Rica was lacking a viable alternative to the ubiquitous IFI-promoted neoliberal solutions and, moreover, because Costa Rica was unable to secure a new phase of capital expansion under existing class configurations. In part this is true, but more as a generalized theme recognizable throughout Latin America. Nationally, crisis and conditionality was and is used as a pretext to do what was politically impossible earlier. (Cypher 1989; Sojo 1991, 15; Bernard 1999; Gowan 1999, 84; Richards 1997; Goss and Pacheco 1999; Ghosh, Tanski, and Enomoto 1996; Judson 1993; Honey 1994; Robinson 1998; Rivera in Sojo, 1991, 17; Valverde 1993)

[2] Sojo 1991, 16; Wilson 1998; Clark 1997

[3] Carazo in Sojo 1991, 16; Translation done by author.

[4] Valverde 1993, 14; Sojo 1991, 15

[5] Cerny 2000; Holloway 1995, 126

Bank, as well as the United States Agency for International Development.[1] These IFIs were charged with facilitating an end to the wider crisis of overaccumulation through neoliberal restructuring of global relations of production.[2] As part of the wider processes, Costa Rica was re-integrated into the world market and global production via four signed agreements with the IMF between 1980 and 1990 and three SAPs initiated under the auspices of the World Bank in 1985, 1989, and 1995 – each designed to reduce the state's role in the economy and open it up to the logic of the free market.[3] The IMF loans, like much of the Agency's money, were used for balance of payment support and debt servicing whereas the IDB and WB loans were for large infrastructure projects (many of which are now subject to privatization).[4] The Agency, in particular, served an integral role in altering domestic production relations and smoothing Costa Rica's re-integration amidst crisis into the world market.[5] The Agency's initial restructuring loans, which by the mid-1980s were converted largely into grants designed to avoid legislative approval, were offered in tandem with IMF, World Bank, and IDB loans. The Agency's financial involvement, as Table One illustrates, has been formidable and, as such, has done much in terms of gaining domestic allies.

Table 1: Costa Rican Foreign Aid, 1980-1990 ($US millions)[6]

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
USAID	14	13	50	212	168	207	157	181	102	115	75
WB	30	29	0	25	0	84	0	26	100	95	4
IDB	133	29	61	36	87	0	174	120	61	189	63
IMF	60	330	100	0	0	52	0	66	0	53	0

[1] Following the collapse of the Bretton Woods system, the WB and IMF had witnessed a 'transformation of role', which involved a move away from 'policy advice' (*a la* Bretton Woods era) to a role of 'policy enforcement' (a la globalization era) (Goss and Pacheco 1999). For a critical evaluation of the WB's evolution, see Pender 2001; also see Soederberg 2001c.

[2] *Cf.* Soederberg 2001c

[3] Goss and Pacheco 1999; Sojo 1991, 15-16; See Appendix A for a list of the principal policies of IMF and WB agreements.

[4] Honey 1994, 62; Also see Valverde 1993; Sojo 1991; While each of these IFIs are important, I shall be limiting my analysis largely to the USAID, though not to the exclusion of the IMF, WB, and IDB. This in no way suggests their involvement was unimportant, although it should be noted that the US and especially the Reagan administration were quite hostile to the IDB and their sympathy to ISI, and therefore successfully pressured them to conform to the dominant neoclassical and neoliberal views (Cypher 1989, 71-72). In regards to privatization of state-owned enterprises, refer to Chapter 5 below.

[5] Sojo 1991

[6] Honey 1994, 62

Following the victory of the Alberta Monge-led PLN, which was in power from 1982-1986, the administration quickly moved to re-establish relations with the IMF and stabilize the struggling economy. Preliminary production relations restructuring was endorsed domestically via a consensus that included the PLN Monge administration, neoliberal state technocrats, and the domestic power bloc composed of commercial, industrial, agro-export, and finance capitals.[1] The domestically-formed consensus was founded upon the safe gamble that, given the general crisis of capitalism in Central America, Washington would be willing to help restore confidence in Costa Rica within the financial world.[2] Monge later declared, "with or without the IMF, it was indispensable that we initiated adjustment and stabilization... without this adjustment, however painful or unwelcome it has been, Costa Rica would have been overwhelmed by social turbulence".[3] Then Central Bank president, Dr. Carlos Manuel Castillo, was quick to reiterate this 'inevitability'.[4] In light of substantial US financial aid, President Monge assured America that Costa Rica would demonstrate that democracy and liberty are possible in a tropical nation, despite the looming Sandinista 'threat' in Nicaragua.[5]

The Iron Fist

The long processes of economic adjustment and recovery began with an attempt to restore domestic and international confidence through the PLN-authored "100-Day Plan" of austerity measures that sought to regain control of the exchange rate, cut governmental and semi-autonomous institutions' budgets, remove price controls on basic consumer goods, and raise taxes – that is, the very conditions required to reopen stalled negotiations with the IMF and receive bridging loans.[6] To the credit of the 100 Day Plan, the Gross National Product (GNP), which had fallen to its lowest point of -11.5% in 1981-82[7], began to demonstrate sustained growth while exports begin to recover, leading to what

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[1] Clark 1997; Sojo 1991; Molina and Palmer 1997, 29
[2] Sojo 1991, 17-18
[3] Wilson 1998; Clark 1997; Sojo 1991, 17
[4] in Brenes 1990, 148
[5] Sojo 1991, 18; see also Molina and Palmer 1997, 29; Honey 1994; While many authors point to the geopolitical significance of the fall of Somoza and the rise of the Sandinistas in Nicaragua vis-à-vis the Agency's role in the so-called soft-restructuring of Costa Rica (which I do not dispute), this is a debate that will not be entered into here (for a fuller discussion, see Honey 1994; Sojo 1991; Molina and Palmer 1997). Suffice it to say, I do not separate America's interest in Nicaragua's "communist threat" from the wider crises of capitalism and America's reconstituted bid for hegemony within Latin America, of which this thesis does deal with in detail.
[6] Seligson and Muller 1987, 316; see also Brenes 1990, 126; Honey 1994
[7] Seligson and Muller 1987, 315

has been called, in macroeconomic terms, the "milagro costarricense" (Costa Rican miracle)[1] and, over time and along with state-authored tax reforms, a class-based economic boom[2].

Following soon thereafter and under US guidance, the cross-conditionality of economic reform measures and coordination of SAPs ensued within and across the IFIs engaged in Costa Rica.[3] Cross-conditionality occurs when specific policy measures are made requisite amongst various IFIs in order to obtain needed funds from one or the other, as was the case in Costa Rica between the IMF, WB, and the Agency.[4] The basic condition for an initial transfer of Agency funds ($64.5 USD in 1982) was that the Costa Rica government sign a stabilization agreement with the IMF.[5] Arguably, any attempt to exclude US capitals' entry into peripheral pools of labor and emerging markets would exact a 'savage American response', leaving one's best hope in negotiating the conditions of submission to the IMF and US multinational banks.[6] The extent of this US-dominated IFI-matrix cannot be underestimated: As US ambassador Curtin Winsor explained[7],

> … what we created was a cascading conditionality where we got the Costa Ricans to agree to do what the World Bank wanted, with what the IMF wanted, and with what the commercial banks wanted. And we coordinated the whole thing so that they got a loan package … and they in turn did what was necessary to make what all of us wanted to see done, work.

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[1] Sojo 1991, 15

[2] Drawn from Richards 1997, 33

[3] Franco and Sojo 1992, 28; SAPs are most often under the auspices of the World Bank and are mostly concerned with a reorientation of the economy towards greater market efficiency, aimed at restoring growth in the medium term (Cheru and Gill, 1997). However, as Cheru and Gill suggest, the distinction between the two Bretton Woods IFIs is blurry because World Bank programs are never instituted without the IMF already in place. Similarly, given that the US has a controlling interest within the BW IFIs, it is unlikely that highly contradictory policy prescriptions would emerge out of the Agency. Thus, a certain neoliberal ideological convergence exists among these three key financial institutions.

[4] Franco and Sojo 1992; In 1984 cross-conditionality was prohibited in the Kemp-Kasten Act; nonetheless, a close relationship remained (Honey 1994, 65) – one which is difficult to avoid given the structural power of capital and US hegemonic interests. Collier, in Pender (2001, 397, FN3), defines 'conditionality as "the idea that international public resources should be used to induce policy reform".

[5] Sojo 1991, 36

[6] Gowan 1999, 68 (quote); Richards 1997

[7] in Honey 1994, 56; *cf.* Cypher's (1989) work on the US's influence across IFIs.

Neoliberal Adjustment Tailored

The *milagro costarricense*, through the adoption of neoliberal reforms, reflects the new class-based linkages developed between state and capital, nationally and internationally – a sign that testifies to the neoliberal logic of the state's development efforts.[1] However, the *milagro costarricense* is a development effort that has renewed Costa Rica's dependent relationship with the US as it authors it own economic re-peripheralization.[2] For example, IMF stabilization measures ask those seeking bridging loans, so as to avoid default, to undertake specific liberalizing policy measures designed to achieve external payments balance, lower import tariffs, reduced government deficits, privatized financial services, increase non-traditional exports, and control inflation.[3] Through the adoption of these neoliberal reforms, new credits became available and old debts were renegotiated thus easing the immediate crisis and allowing the return of capital that had earlier left.[4] As a result, ISI-promotion and pre-existing relations of production are increasingly replaced by *maquiladoras* and *zona libres* that have appeared around the Central Valley[5], the most recent and significant of which has been Intel in 1998, whose exports have become one of the largest single foreign currency earners over traditional exports like coffee and bananas.

Stabilization and structural adjustment have formed the basis of Costa Rica's restructured social relations of production. However, the application of neoliberal restructuring has been particular because of the very nature of how change occurs within the state as a social relation. Neoliberal restructuring must be grafted onto existing domestic policy strategies and class compromises thereby complicating and contradicting them.[6] What occurs is a situation in which pre-existing Costa Rican structural dependencies, such as an agro-export economy, international debt financing, and the hegemonic *Pax Americana*, are simultaneously altered and grafted-over by an emerging SAP-dependency.[7] Because of the necessary particularities of this process, iron fist IFI

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[1] Goss and Pacheco 1999
[2] Soederberg 2001; Judson 1993; Honey 1994, 128; Gowan 1999
[3] Richards 1997, 23; Taylor 1997, 147; Cheru and Gill, 1997; Molina and Palmer 1997, 29
[4] Judson 1993, 154-55
[5] Robinson 1998; Maquilas are large, foreign owned manufacturing centers that operate within tax-free and largely regulation-free zones (zona libres), which also offer additional exemptions and incentives to operate. Often, the only benefits to the state come in the form of employment, which is itself questionable.
[6] Judson 1993
[7] Judson 1993, 152; *cf.* Bernard 1999

restructuring programs are insufficient. Rather, these harsher measures must be shrouded by a 'velvet glove' – a vital role that was fulfilled by the Agency as an influential leader and financial contributor, particularly in the construction of a 'parallel state', which helped ensure that class struggle did not hinder neoliberal transformation.[1]

The Velvet Glove: USAID's Parallel State

We are not Santa Claus. It's obvious with resources come responsibilities

- USAID official in Costa Rica, 1984[2]

Within the context of the global crisis of overproduction, the Agency's mitigating role has been essential as stabilization, austerity, and SAPs must be implemented locally, under the patronage of state power, and with the support of key social forces.[3] Put differently, rather than a provider of benevolent *aid*, the Agency in Costa Rica was a facilitating agent charged with smoothing the violent socio-economic transitions associated with neoliberal restructuring.

Officially created by President John F. Kennedy's executive order under the 1961 Foreign Assistance Act, the Agency's direction comes from the US Secretary of State.[4] Described as an independent federal government agency, the Agency provides economic, development, and humanitarian assistance globally in support of American foreign policy goals. Their foreign assistance policy entails two explicit goals: (1) expanding democracy and free markets; and (2) improving the standards of living for the people living in the developing world.[5] The influence of neoliberal ideology is evident within the Agency's 1984 "Private Enterprise Development" policy paper whose goals include the following: (1) to encourage less developed countries to open their economies to a greater reliance on competitive markets and private enterprise in order to meet the basic human needs of their poor majorities through broadly-based self-sustained economic

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[1] Sojo 1991; Valverde 1993; Honey 1994, Ch.3; Saborio 1990, 280; Richards 1997, 25
[2] in Honey 1994, 51
[3] Bernard 1999, 200
[4] Taken from USAID's official website: http://www.usaid.gov/about/. 10 May 2002.
[5] Ironically, while the USAID's mission is to promote democracy, it was only after of few years of its intensive presence that, in August 1984, Costa Rica neared a coup situation and President Monge called his country into the streets to ward off US pressure for support in the war against the Sandinistas (Honey 1994, 84-85; Molina and Palmer 1997, 29; see USAID's "Human Rights Policy Determination", 26 September 1984).

growth; and (2) to foster the growth of productive, self-sustaining income and job producing private enterprises in developing countries. These strategic goals are said to create a society in which individuals have the freedom of economic choice, freedom of ownership of the means of production, freedom to compete in the market place, freedom to take economic risk for profit, and freedom to receive and retain the rewards of economic decisions. In fact, freedom is couched in terms of a 'democratized' economy whose liberty depends upon altering existing class compromises and minimizing the social role of state. The terminology of 'economic freedom' has been a key lever used by the Agency and the parallel state in Costa Rica to script the class-based benefits of neoliberalism. A similar discourse template is still used as testified to by George W. Bush's argument that, "*[t]hose who protest free trade seek to deny (the poor) their best hope for escaping poverty.*"[1]

The Parallel State

First dubbed so by economist John Biehl, an advisor to Costa Rican President Oscar Arias (1986-1990), the *parallel state* was a set of USAID-created and financed private institutions that included banks, a foreign investment agency, a university, a road construction company, etc. that duplicated and thus weakened existing government institutions – these parallel institutions constituted an attack, according to Biehl, upon Costa Rica's 'quiet socialism' by the US.[2] The Agency's parallel state functioned to create significant opportunities for foreign investment in Costa Rica by underwriting and financing state enterprise sell-offs, encouraging the deregulation of banking, offering technical advice, and by placing guarantees and insurances on foreign investment.[3] Via this US-sponsored transfer of money (an increase from $13 million to $212 million between 1981 and 1983 – see Table 1 above), domestic and foreign capital enjoyed many benefits through new and safe capital valorization opportunities.

The parallel state functioned to cement, unify, and control the centre of state apparatuses whose very creation was authored by the most powerful within the state in collaboration

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[1] in Friedman, Thomas L. *London Free Press.* July 23, 2001.
[2] in Honey 1994, 75
[3] Honey 1994, ch.3; Sojo 1991;Richards 1997; Cypher describes the Agency as a well-funded institution destined to "reinvent dependency"(Cypher 1989, 67). Also, see Ch.5 regarding privatization and the parallel state.

with the dominant party.[1] As such, the parallel state ought to be conceived as a material expression of America's hegemonic and capital's aspirations.[2] It follows that the parallel state is a form of relational power that can alter production and power relations within the state, that is, within the domestic power blocs, between the power bloc and popular classes, and within popular classes. Because of its seeming autonomy, the parallel state maintains the fictitious, yet real, relative autonomy of the Costa Rican state thereby allowing its more effective intervention in economic restructuring.

Reconfiguring the Field of Class Struggle: Centralizing Power

Reconfiguring the capitalist state as a field of struggle was undertaken by the Monge administration; at this point, significant new mediatory activities and networks within the state and power bloc metamorphosed to meet the demands of the newly integrated capital sectors.[3] To avoid widespread resistance, in an already volatile region and turbulent economic era, socio-economic restructuring had to be done gradually. Contrary to the inalienable SAP logic of fiscal austerity, the Costa Rican public sector employment levels offer an insight because they were *not* drastically altered between 1980-1988 as the public/private employment relation remained relatively stable (see Box A below).[4]

Box A: Evolution of the Workforce by Institutional Sector 1980-1988

Year	Private Sector	Public Sector	Total
1980	79.7	18.9	98.6
1981	80.1	18.3	98.4
1982	81.0	16.7	97.7
1983	80.0	17.8	97.8
1984	79.7	18.5	98.2
1985	80.1	18.3	98.3
1986	79.6	19.0	98.6
1987	83.0	15.7	98.7
1988	81.8	17.1	98.9

Source: Dirección General de Estadísticas y Censos[5]

[1] Drawn from Poulantzas 2000, 239
[2] Drawn from Poulantzas 2000, 240; *cf.* Cypher 1989, 67
[3] Goss and Pacheco 1999; Valverde 1993, 37
[4] Sojo 1991, 50-51
[5] in Sojo 1991, 52

Neither the distribution of public expenses nor public employment suggest that there was a drastic reduction in the state's participation within socio-economic matters.[1] However, state reconfiguration did occur in the form of an inward shift or centralization of power. Between 1980 and 1988, only the central government realized an *increase* in spending relative to the GDP whereas other public and semi-autonomous institutions realized overall *decreases* in spending.[2] It is interesting to note that at the height of structural adjustment in 1986, the central government commanded 21.9% of the GDP while in 1980 the number was only 13.5% and 15.6% in 1989.[3] Put otherwise, the central government made a grab for power during and in the aftermath of the 1982 debt crisis as part of the Agency-sponsored softened restructuring, which explicitly concentrated power within the central government so as to smooth neoliberal adjustment.[4] Softened restructuring, however, would be replaced by a more aggressive IFI-sponsored "shock therapy' authored by the right-wing conservative Partido Unidad Social Cristina (PUSC) beginning in the 1990s as USAID funds dried up and 'communist' threats dissipated elsewhere in Central America.[5] Simultaneously within the central government and power bloc, a further concentration occurred as power shifted more toward economic and financial apparatuses.[6]

Mitigating Struggle, Creating Hegemony

The Agency-sponsored, so-called social compensation packages were programs created in anticipation of the class conflict that would arise from the initial shocks of adjustment.[7] As 1980s Agency director Daniel Chaij noted, support for social compensation packages was important because the 'economic' program was certain to impoverish some people.[8] Where cuts or elimination of state subsidies of domestic-use tradition exports occurred, the Agency alternatively funded *non*-traditional agricultural exports to help fill the gap.[9] This mandate was allocated to the Costa Rican Coalition for Development Initiatives

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[1] Sojo 1991, 51
[2] Sojo 1991, 52
[3] Sojo 1991, 59
[4] Sojo 1991
[5] Goss and Pacheco 1999
[6] Drawn from Honey 1994, 87-88; Valverde 1993, Clark 1997, Sojo 1991; Ch.5 offers a further discussion of financial privatization and shifting power configurations within the state.
[7] Honey 1994; Judson 1993; Sojo 1991
[8] Honey 1994, 100
[9] Judson 1993, 154

(CINDE), an Agency-funded parallel institution, so as to help reorganize of the production of cooperatives, small-businesses, peasants, labor, artisans, and women toward exports, a central tenet of the neoliberal growth model.[1]

Aside from financing the centralization of state power, and therefore sustained levels of public sector employment, the Agency created a 'shock-absorbing' umbrella organization named the Association of Costa Rican Development (ACORDE) to finance, organize, and exert ideological influence upon existing non-governmental organizations (NGOs) in 1986.[2] With US dollars in hand, ACORDE quickly overshadowed established women's and local development NGOs, who in fact had previously received Agency funds directly but with fewer strings attached, who were now cut off – in other words, for larger social projects, the ideologically-charged ACORDE had become the only game in town.[3] Neoliberalism was further promoted via a free-market education strategy, wherein the Agency adopted a relatively aggressive position by establishing a private university (EARTH), funding a private religious school, supporting private-school library improvements, and financing the printing of 'democracy' school textbooks.[4] Post-secondary scholarships were also made available to pro-US Costa Rican students to study in the US – study which emphasized the logic of the private sector.[5] Thus, by propping up private institutions, facilitating the dismantling of the welfare state, withholding and conditioning funds for community projects, and promoting neoliberalism under the guise of educational assistance, the Agency, in conjunction with the ruling political parties, helped reconfigure state power relations in favor of the capitalist power bloc while creating roadblocks in the organization of the popular classes' resistance (not the least of which was social compensation itself). While designed to mitigate popular struggle, the Agency's diverse efforts did not eliminate struggle as contradictions within the social relations of production were not resolved.[6]

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[1] Honey 1994, 99; See Ch.5 for a discussion of CINDE
[2] Honey 1994, 99
[3] Honey 1994, 99
[4] The participation of private influences have continued with, for example, Intel sponsoring computer labs and producing children's environmental books in conjunction with localities (e.g., Belén) that outline individual responsibility as opposed to corporate ecological responsibility. See "Salvemos nuestro Planeta" *Intel.* September 2001. In 1999, Intel had "Intel Education Programs" in 15 countries with 8 more in the US alone(*Intel.* 1999 Annual Report).
[5] Honey 1994, 102
[6] Robinson 1998

Popular Resistance against the Power Bloc

Globally, criticism against the pursuit of economic globalization has been mounting. Dani Rodrik, a professor at Harvard University, argues that not only has the Washington consensus model "run out of excuses" but that the financial system is essentially broken.[1] Rodrik argues that anyone "who still thinks this is an efficient system for resource transfer is mad." But what is to be done? He argues that the answer is to roll back the clock, give up on the Washington consensus and reinstate capital controls, for only then will Latin America's economies have the breathing space that they need to get any economic growth. So too has former chief economist of the World Bank, Joseph Stiglitz, affirmed that the promises of neoliberal reform (privatization, liberalization, stabilization, and inflation control) have not produced their holy rewards of rapid and sustained economic growth.[2] Such criticism has pressed the World Bank to reconsider and challenge their approach to development policy over the course of the 1990s.[3] Nationally, finding room to breathe has been a constant battle for the popular classes given Costa Rica's general instability across the 1980s and 1990s and production restructuring – a struggle testified to by a potential coup that arose in 1984, but one that was peacefully disarmed before becoming violent.[4] Such an event is a reflection of the wider social dislocations caused by economic globalization that should not be glossed over for they are rooted in the materially-based contentions found between the dominant and popular classes.

One manifestation of popular dissent was the popular 'liberation theology', which was increasingly active in Costa Rica in defense of the poor during the crisis years of 1980-1985.[5] Women's social movements have also risen up in response to their increasing marginalization within the neoliberal 'democratized' economy.[6] However, at the forefront were the 1980s rural mobilization movements composed of largely small-farmers and peasants.[7] Rural movements marched, blocked highways, and conducted sit-

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[1] Rodrik's comments taken from: "Doubts inside the Barricades." *The Economist.* 26 Sept 2002.
[2] Stiglitz, Joseph. "The Disastrous Effects of Instability." *Financial Times*. 22 Sept 2002. For a more detailed account of Stiglitz's criticisms of the IMF/WB and 'post-Washington consensus', see Stiglitz 2002.
[3] Pender 2001, 397
[4] Honey 1994, 84-85
[5] Molina and Palmer 1997, 31; see also Seligson and Muller 1987
[6] Cruz and Facio 2000
[7] The following analysis on peasants' resistance to globalization is taken from Edelman, 1999; see also Vargas C. 1992; Román Vega and Rivera Araya 1990

ins at government buildings in protest to social program cutbacks in efforts to preserve their livelihood and existing class compromises. The rural poor formed alliances with wealthy farmers, negotiated with politicians, and first recruited, then rejected, charismatic outsiders who came to live among them and to speak in their name. Despite cross-class alliances, confrontation between the capitalist power bloc and small farmers occurred. For example, in 1988 amidst an intra- and inter-organizational political setting, the Santa Cruz, Guanacaste, strike occurred where a few government buildings were occupied by several dozen angry peasants. While the direct action led to an increase in cheap credits for peasants and, thus, in some small way softened globalization, so too did the direct action result in additional state repression with the arrest of peasant leader Marcos Ramírez following the occupation. Over time, given the inertial power of the capitalist state, USAID's social compensation, and the structural power of capital, peasant organizations were forced to shift from confrontation to negotiation. The downgrading in resistance strategies is made all the more understandable given the fact that the so-called US "Food for Peace" food-aid, by dumping massive amounts of cheap corn, wheat, and rice on Costa Rican markets, effectively wiped out thousands of local producers and destroyed the nation's food self-sufficiency. That is, by eliminating their material basis for production and continued self-sufficient existence, the Agency also eliminated much of the material basis for resistance to neoliberal adjustment. However, popular resistance has not disappeared.

More recently, a group of Costa Ricans, particularly along the poorer Caribbean Coast, and the Natural Resources Defense Council, have been leading an international campaign to prevent the establishment of ecologically harmful petroleum drilling in Costa Rica – drilling that has political ties with U.S. President George W. Bush.[1] This particular struggle has a history rooted in the earlier privatization of the port in Limón and closing of the railway, the culmination of which was a violent protest in June 1996.[2] So too has successful resistance been manifested nationally against the third SAP and ruling party PUSC calls for privatization of the nation's electrical industry, ICE, in the mid-1990s, which the PUSC had to retract and opt for a watered-down version.[3] Less successful was a 1995 teachers' strike that failed to achieve most of their demands that followed drastic

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[1] "No Rigs Allowed." *On Earth: Environmental Politics People.* Fall 2002, Vol.24, No.3; Cajiao 2001.
[2] Booth 1998, 165
[3] Wilson 1998, 155; Booth 1998, 165; For more on privatization and resistance, see Ch.5.

cuts in the education system.[1] However, public labor unions did effectively rally and organize an information campaign and staged a strike in October 2001 to protest the proposed privatization of the national water and sewage systems (AyA).[2]

Generally speaking, however, much of labor's post-war power has waned. Between 1980 and 1986, the majority of union activity was displaced in the private sector by the "*solidarismo*" (solidarity) movement – a type of worker-patron labor organization sponsored by business – that was linked to the post-war catholic anti-communist movement.[3] While *solidarismo* has permitted certain benefits to be accorded to workers, the main difference is that employees now negotiate directly with their particular employer and class is not a basis of organization.[4] The growth in *solidarismo* has been phenomenal growing from only 7% of negotiations between laborer and employers being under its auspices in 1980 to 51% in 1986; while in 1994 there existed 600 unions, there were 1694 'solidarity associations'. So successful was *solidarismo* that this form of labor organization was exported to other Central America counties and México.[5] More importantly, *solidarismo* has become the labor association of choice for over 90% of incoming multinational companies in 1990.[6]

III
CONCLUSION:
Neoliberalism and Neodomination

Through an analysis the interrelated moments of crisis, capital, and state, the emergence of neoliberalism is best interpreted as an aggressive and sustained class-based assault upon labor and existing class compromises. Neoliberalism, then, as a new form of political domination, equates with altering pre-existing class compromises in order to create the social conditions necessary for renewed and progressive capital accumulation while attempting to mitigate its most pernicious effects through state-sponsored social compensation. The alteration of pre-existing class compromises have benefited the

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[1] Booth 1998, 165
[2] *La Nación*. "Paro en Servicio de AyA." 3 October 2001; More is said on this in Ch.5
[3] Molina and Palmer 1997, 32; Bejarano 1992; Refer to Ch.4 for more detail on the historical aspects of unions in Costa Rica.
[4] Bejarano 1992, 207
[5] Molina and Palmer 1997; Bejarano 1992
[6] Wilson 1998, 69

domestic power bloc, which is itself composed of national and foreign capitals under the hegemony of finance, by opening up new state-authored capital accumulation opportunities. That is, neoliberalism has effectively transferred massive amounts of resources from the public to the private sphere and from the domestic to the external market, thus signaling a change in state form from a 'developmentalist/welfare' to a 'neoliberal' state as a means to overcome crisis, which was endemic to the wider world market.[1] However, neoliberal restructuring cannot be understood outside of wider social relations of production, which have been clearly influenced by the evolution of the US-based Dollar-Wall Street Regime as a means to reconfigure America's economic hegemony while giving rise to the power of finance capital.

In this sense, the renewed hegemonic status of finance capital is a reflection of powerful domestic American political and capital interests, which have sought to reconstitute their earlier production-based hegemony that had been suffering due to falling productivity and profit levels in the late 1960s and 1970s. It was a US strategy to not lose control over Central America via the opening up of Costa Rica's economy to the international market and finance, strengthening the private sector via export promotion, privatizing state industry and services, and modifying pre-existing compromises with labor.[2] The processes of so-called economic recuperation and the emergence of neoliberalism were intrinsically linked to the cooperation among US-based and -financed IFIs as a means to overcome the massive increase in Costa Rican external debt.[3] As Patomäki states, "the dominant position of the US, the hegemony of neoliberalism, and the power of global financial markets are closely linked."[4] The benefits of this linkage are evident, as the US has virtually alone prospered among advanced capitalist economies.[5]

However, neoliberal globalization has not resolved the social contradictions that arise from the inherent crises of capitalist production, but instead have ushered in a new, yet seemingly nostalgic, set of contradictions and worsening manufacturing overcapacity.[6] Another such contradiction is the rendering of labor as increasingly dependent upon progressive accumulation (in other words, making labor more flexible to the ebbs and

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[1] Robinson 1998
[2] Valverde 1993, 14-15, 29; Sojo 1991
[3] Sojo 1991, 15; Valverde 1993, 28
[4] Patomäki 2001, 68
[5] Brenner 1998
[6] Robinson 1998; Brenner 1998

flows of the market by limiting the right to strike, more ease in being replaced by non-unionized workers, allowing individual workers to opt-out of union membership, etc.), which, in turn, renders most labor as unnecessary to the capital accumulation process and, hence, expendable.[1] These contradictions are written into the very materiality of the state within neoliberal financial orthodox and, in fact, preclude policies that could ameliorate the contradictions of neoliberalism, such as agrarian reform and redistribution measures.[2]

[1] Judson 1993, 162-63; Richards 1997, 24
[2] Robinson 1998

CHAPTER FOUR

COSTA RICA'S HISTORICAL POLITICAL ECONOMY, 1502-1979

Chapter Three argued that neoliberalism, as a form of political domination, emerged in Costa Rica as part of a wider crisis of overproduction/overaccumulation. This same crisis brought an end to the Bretton Woods system as America moved to reconfigure its hegemony away from production and towards the exigencies of financial accumulation under the Dollar-Wall Street Regime. *Chapter Four* builds upon the foregoing analysis by examining the foundations of Costa Rica's political economy from the colonial period (1502-1821) to the end of the Bretton Woods era when neoliberalism began to emerge. Here, I argue that the emergence of neoliberalism is rooted within earlier social relations of capitalist production and class compromises, which similarly upheld specific forms of political domination.

I

COSTA RICA'S POLITICAL ECONOMY, 1502-1940

1500s-early 1800s

When Christopher Columbus trumpeted his arrival in 1502 by naming the land Costa Rica, that is 'Rich Coast', it was ironic because the reality was a lack of valuable minerals and, later, a persistent shortage of labor. These barriers to progressive capital valorization formed the reality that characterized Costa Rica's early political economy.[1] Early production relations largely centered on a village-exchange subsistence economy that supported a small white-settler population that was still only a few hundred by the mid-17th Century.[2] The *encomienda* system (trusts of land), earlier established under Spanish colonial rule, evolved into private property and the growth of a landed bourgeoisie class that, while substantial in Costa Rica, did not compare in extent to those of other Latin American economies.[3] The persistent short supply of labor also contributed to the difference with larger *haciendas* as the local Gran Nicoyas and Chibchu tribes had been subdued, exterminated due to disease and conquest, or had fled

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[1] Wilson 1998; Booth 1998; Gudmundson 1986
[2] Wilson 1998; Gudmundson 1986; Booth 1998
[3] Gudmundson 1986; Booth 1998; Wilson 1998

the region and few slaves were originally bought and brought due to the paucity of valuable minerals and viable exports.[1] As such, early elites held a weaker hold over the popular masses because farms tended to be smaller with fewer workers so that landowners were forced to labour alongside their workers creating a less alienating production relationship.[2] Regardless, class-based relations of production predominated between the landed bourgeoisie, merchants/traders, financiers, and commercial capitals and the popular classes, which consisted of descendants of soldiers, mestizos, slaves, indigenous people, subsistence farmers, artisans, boatmen, dockworkers, and miners.[3] These historical socio-political and economic stratifications that organized colonial social relations of production have subsequently given rise to an unrelenting social duality and class-conflict.[4]

1800s to 1940

With the discovery of coffee as a viable export, Costa Rica was inserted into the 19th Century world market, a market dominated by *laissez-faire* ideology, a hegemonic British-based classical gold standard, and mercantilist forms of accumulation, which defined the international monetary order under *Pax Britannica*.[5] Coffee export successes were later matched by bananas that, once organized under the state-authored promotion of agricultural export commodity production (EXA), served to unify both liberal and conservative fractions.[6] The success of EXA production, whose earnings paid for

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[1] Booth 1998; In 1522, there was an indigenous population of 27 200 and by 1801 that population had fallen to 8 281 (Creedman 1991, in Wilson 1998).

[2] Gudmundson 1986; Booth 1998;

[3] Drawn from Booth 1998; Wilson 1998; Thus, contrary to the fallacious, yet popular, national myth of an early egalitarian, classless, and democratic society, Costa Rica's history is rooted in relative poverty and isolation, as well as class-based relations of exploitation (Gudmundson 1986). Alongside such class distinctions, there existed further divisions as segregated and racist elements persisted that valued fairer, European appearances over indigenous and African-slave traits (Booth 1998).

[4] Seligson 1987, 155; Wilson 1998, Ch. One; For a striking example of this unequal privilege, from independence to 1970, more than 20 Costa Rican presidents and 250 deputies can trace their lineage directly back to Vásquez de Coronado, the founder of the first Spanish settlement of Cartago (Gudmundson and Woodward in Wilson 1998, 16).

[5] Cohen 1977; Bulmer-Thomas 1987; Wilson 1998, 24; Booth 1998; Mercantilism was defined by early political economist Viner as stressing the 'long-run harmony between wealth and power as instruments and the proper ultimate ends of state policy" (in Rupert 1990, 429). The appearance of the first hegemonic world order, liberal in character, was cerca the beginning of the 19th Century (Rupert 1990, 433).

[6] Pérez-Brignoli, 1989, 77; Bulmer-Thomas 1987; Following the 1821 notice of independence from Spain, a brief civil war occurred between conservatives and liberals. The victorious liberals won, formed the Central American Federation in 1824 but conflict continued between the long-established conservative interests and the emerging liberals, who sought to minimize the power of

mounting British imports, solidified the export-led model of dependent capital accumulation that defined Costa Rica's subsequent political economy and the growth of an agro-export hegemonic capital class.[1] Contrary to the popular national myth, however, the post-colonial period was coloured by political and economic unrest as various dominant class fractions, within its own style of *caudillo* rule, vied for political power to govern in their interests.[2] The nascent liberal state, nevertheless, played an invaluable role in organizing EXA production, securing foreign finance, and developing the necessary productive infrastructure.[3] Actual financing of the rapid expansion of EXA production was done through the private Banco Anglo-Costarricense (est. 1862) which, consistent with *en vogue laissez-faire* and comparative advantage ideological tenets, facilitated the free-flow of foreign capital into Costa Rica with few restrictions on domestic reinvestment.[4] Still, progressive capital valorization faltered as historical labor shortages brought EXA capital into conflict with the needs of Costa Rican society for cheap, accessible, domestic-use agriculture (DUA) that did not exact the same high rates of capital return.[5] What the shortage of labor did historically afford, however, was a stronger basis for the labor movement that, in part, prevented the appearance of extensive, labor-intensive coffee plantation systems.[6]

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the church and expand their own power through the state. Costa Rica left the CAF permanently in 1838 opting for solitary independence, which was achieved in the form of a new republic in 1848 (Gudmundson 1986; Wilson 1998, Ch.2).

[1] Gudmundson 1986, 4; Wilson 1998, Ch.2

[2] see Wilson 1998, 19; Lehoucq 1996; Vega Carballo 1993, 30; Bulmer-Thomas 1987, 18; Caudillo rule is where incumbent presidents chose their successors and employed electoral fraud to ensure their ascent (Seligson and Muller 1987, 307; Wilson 1998, Ch.2).

[3] Wilson 1998, 23; Bulmer-Thomas 1987; '*Laissez-faire*' and today's 'market fundamentalism' hold that "the public interest is best served when people are allowed to pursue their own interests." The role of a 'liberal' state is, then, to allow men to pursue their interests freely, which means guaranteeing the functioning of the free market (i.e., the arena where one could pursue one's insatiable greed for material gain without tearing apart society) (Soros 2000, xii).

[4] Gudmundson 1986; for a further discussion on the rise of high finance under *Pax Britannica*, see Polanyi 1967, Patomäki 2001

[5] Wilson 1998, 25; Booth 1998

[6] Goss and Pacheco 1999; Gudmundson 1986; Wilson 1998, 25; For an example of labor's influence, in 1934, the Communist Party organized a strike of 10 000 United Fruit Company workers that saw the intervention of the government and the granting of significant worker concessions (Seligson 1980 in Wilson 1998, 27).

II

COSTA RICA'S CHANGING STATE FORMS, 1940s-1970s

The Crash of 1929

As a reflection of the wider contradictions of global capitalism, barriers to progressive capital accumulation became acute in Costa Rica by the late-1920s. Capital valorization barriers manifested due to the economy's monoculture nature, growing population, increasing division of labor, non-technical solutions to waning productivity levels and profits, structural vulnerability to external shocks, and declining access to virgin lands.[1] That is, following the international financial booms of the 1920s and the moderate successes of their narrow model of export-led growth, while placing Costa Rica as the wealthiest Central American state by 1920, had led to a systemic production crisis by the 1930s and, like most everywhere, brought a severe slowdown in production, which was punctuated by the 'Great Crash of 1929'.[2] The crisis of capitalism found the dominance of high finance and stock exchanges rocked that, in turn, transformed the legitimate options of economic policy.[3] This wider crisis of capitalist relations of production led to a rise in economic nationalism, the Keynesian welfare-state, and a counter-imperialist movement that was institutionalized within the Bretton Woods system and dollar-gold standard that replaced *Pax Britannica*.[4] New sets of class compromises were negotiated domestically, in the emerging context of the Cold War, between labor and capital that sought to guarantee increased standards of material well-being in return for decreased working-class militancy.[5] The new era would see the rise of *Pax Americana* and the resurgence of production capital's determinacy over finance.

Latin America's early experience with export-led growth faltered with the Great Depression of the 1930s, although the supposed end was not official policy until after the end of World War II when domestic growth took precedence under Keynesian development principles.[6] However, the demise of export-led growth and the rise of

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[1] *cf.* Chapter Two above; Seligson and Muller 1987; Gudmundson 1986; Wilson 1998, 28; Goss and Pacheco 1999

[2] Robinson 1998; Gowan argues that early 20th Century political economy relations have significant parallels to contemporary patterns (1999, 70; *cf.* Soederberg 2001)

[3] Patomäki 2001, 43; *cf.* Polayni 1963

[4] Patomäki 2001, 43; *cf.* Chapter Three above

[5] Goss and Pacheco 1999

[6] Hirschman 1968, 3

import-substituting industrialization (ISI) does not hold quite true for Central America where their 1940-1970s dependent capitalist development included substantial growth in the EXA sector alongside dependent-industrialization within the framework of the Central American Common Market (CACM) and ISI model.[1] This dependent-development was linked to the post-war economic growth and increased demand in core countries for the raw materials needed for extensive industrial expansion.[2]

Domestically, the 1940s initiated a period of social resurgence against *laissez-faire* exigencies for the self-protection of Costa Rican society.[3] Dr. Rafael Angel Calderón Guardia's administration, which held power from 1940 to 1944, challenged the dominance of agro-export and finance capital by establishing a nascent, yet extensive, social security program in 1941, initiating constitutional 'Social Guarantees' in 1943, and writing an advanced Labor Code in 1943.[4] To counter the dominance of capital, Calderón formed an informal alliance with the Communist Party and catholic church, which served to buttress both his authoritarian rule and social reforms.[5] Effectively altering the class-based power configuration within the state, the socially progressive, yet authoritarian, Calderón argued that social legislation was the "only formula to harmonize the conflicting interests of capital and labor".[6] By internalizing many social functions and thereby drawing in a broader social base to counter EXA capital's dominance within the power bloc and liberal state[7], the social relations of capitalist production, and therefore political domination, were reconfigured (though not eliminated by any means). However, this reconfiguration was not to pass without social disruption.

The newly-written 1949 Constitution arose out of general social unrest and the 1948 civil war, which occurred as the end result of the previous decade's agitation and falling standards of living, and was in part divined by the July 1947 popular strike, "Huelga de Brazos Caídos".[8] The civil war's most direct cause was the annulment of that year's presidential elections, allegedly won by Otilio Ulate Blanco of the opposing Party of

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[1] Hirschman 1968, 3
[2] Robinson 1998; see also Bulmer-Thomas 1987; Goss and Pacheco 1999
[3] *Cf.* Polanyi's (1963) Double Movement
[4] Mesa-Lago 2000; Lehoucq 1990; Wilson 1998
[5] Wilson 1998, 32; Rosenberg 1981, 279; Bulmer-Thomas 1987, 102
[6] Calderón, in Wilson 1998, 31
[7] Bell 1971 and Ameringer 1978, in Wilson 1998
[8] Lehoucg 1990; For an institutional analysis of the new Constitution, see Wilson 1998, Lehoucq 1990, Booth 1998; Mesa-Lago 2000

National Unification, by the constitutional congress still loyal to Calderón and his hand-picked successor, Teodoro Picado, who was president from 1944-1948.[1] The triumphant political expression of the civil war was the newly formed Partido Liberación Nacional (PLN); the economic expression was an expanded agro-export, state-interventionist, 'modernization' development model that remained consistent with the tenets of the emerging Bretton Woods system and *Pax Americana*.[2] The post-war period was marked by extensive nationalizations and a consensus within the power bloc, later led by industrial capital, which favored the institutionalization of social conflict, and technocratic solutions to overcoming barriers to progressive capital valorization.[3]

The Nationalization of Banking

The sudden and unexpected nationalization of Costa Rican banks in 1948 by junta leader José Figueres immediately decreased foreign and export capital's power within the state and augmented the state's ability to negotiate development internally.[4] Institutionalized within the Nationalization of the Banking Sector Act (1948), only four state banks were allowed to keep a monopoly on deposits, foreign exchange transactions, and foreign investment while pursuing the social objectives of providing credits and facilities for savings to the lower socio-economic strata.[5] In a telling statement, the 1948 Act affirmed that "credit access and the movement of national savings is a matter of political economy that *must* be controlled by the state."[6] The critics of said form of national development argued that the state monopoly on credits hindered the private sector's ability to prosper.[7] Since nationalization, at least eight attempts have been made towards privatization that,

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[1] A complete analysis of the 1948 civil war is beyond the scope of this paper; suffice it to say that controversy exists amongst Marxist, liberal, and institutionalist analysts as to why crisis occurred and why Costa Rica resorted to violence to resolve its conflict (see Lehoucq 1990; Gudmundson 1986; Seligson and Muller 1987; Wilson 1998; Booth 1998; Bulmer-Thomas 1987).

[2] Gudmundson 1986, 7; See Chapter 3 for a discussion of the Bretton Woods system.

[3] Goss and Pacheco 1999; see also Mesa-Lago 2000

[4] Brenes 1990; Goss and Pacheco 1999; The nationalization of the banks was also accompanied by a 10% wealth tax (Wilson 1998, 43). Shortly thereafter, the leadership junta also abolished the standing army, a move unprecedented in Latin America at the time (whose further analysis is beyond the scope of this paper; see Wilson 1998, Lehoucq 1990, Booth 1998).

[5] Goss and Pacheco 1999

[6] in Brenes 1990, 19; emphasis added

[7] Goss and Pacheco 1999; Brenes 1990, Introduction; *cf.* Chapter Three above and the tenets of neoliberalism.

while not initially succeeding, provided incremental toe-holds towards the extensive financial reform and eventual privatization of the 1980 and 1990s under US tutelage.[1]

Labor Organization

Labor has always been of unique historical significance in Costa Rica due to its shortage; in the context of the Cold War (communism versus liberalism) and state-led development, labor's organization took on an even more ideologically salient position.[2] The initial two labor organizations that appeared in the 20th Century included the communist-controlled CTCR (Confederación de Trabajadores de Costa Rica) in 1943 and the CCTRN (Confederación Católica de Trabajadores Rerum Novarum) in 1944; these two unions were split and competed for labor's loyalties. The more conservative CCTRN aligned itself with the US-influenced labor organization, ORIT (Organización Regional Interamericana de Trabajadores), in a bid against the regional communist-based CTAL (Confederación de Trabajadores de América Latina) and the Moscow-dominated WFTU (World Federation of Trade Unions) with whom the CTCR was aligned. Following Costa Rica's civil war and rise in East/West tensions, the more radical CTCR was severely repressed by the state and any significant communist influence was destroyed by 1954. While the CCTRN gained more privileged access to state leadership due to their support of Figueres in the civil war, labor's overall influence waned significantly until the 1970s due to consistent anti-labor stances taken by the state.[3]

Schizophrenic Dependent Capitalist Development

Costa Rica's post-war development remained capitalist, within the Bretton Woods structure and *Pax Americana* model of state-led accumulation, largely dependent upon American production and finance capital, the expansion of agricultural exports, and a contradictory ISI development model.[4] Regional trade and ISI, a development model supported by CEPAL and the Prebisch modernization thesis designed to overcome the failings of export-led development, were pursued through a series of bilateral trade

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[1] Brenes 1990; Goss and Pacheco 1999; refer to Ch.5 on privatization below and the centrality of finance to neoliberal restructuring and political domination.

[2] Goss and Pacheco 1999; Bulmer-Thomas 1987; The following discussion of labor is taken from Wilson 1998, 68-70, Bulmer-Thomas 1987, Ch.7

[3] *cf.* the rise of *solidarismo* in Costa Rica, see Chapter Three above.

[4] See Robinson 1998; Goss and Pacheco 1999; Cypher 1989

agreements within Central America, which later developed into the CACM.[1] Attempts to minimize export dependence, however, were put aside partly because of European economic recovery and expanded American consumption that doubled the price of coffee from 1950-55; thus, while earning the much-needed foreign currency for ISI diversification, the short-term boom actually deepened dependency upon US-based export earnings – a dependency that was encouraged through the Ministry of Agriculture and the now-nationalized banking system.[2] By the late 1950s, the need to diversify EXA production, which had been extended to its ecological limits, became increasingly salient.[3] Fighting such change was the still entrenched agro-export capital which, in 1954, still accounted for 90% of all export earnings.[4] Globally, inter-regional trade grew while competitive pressures emanated from the Far East in the form of cheaper wages, thereby putting increased pressure upon the Costa Rican state to capture and maintain emerging multinational companies and their production facilities, which were beginning to shift sites globally.[5]

The CACM

Late 1950s Central America experienced declining terms of trade that, in turn, led to a balance of payments crisis due to continued reliance on imports for intermediate goods.[6] In response, the CACM emerged in 1963 as a strategy to recreate capital valorization opportunities regionally. However, it was a counter-strategy merely grafted onto the preexisting dominant export-led capital valorization model in order to minimize EXA capital's opposition to the CACM.[7] That is, EXA capital was appeased by the state by ensuring that their profitability would not be hindered in order to gain their support.[8] This class-friendly approach gave rise to a schizophrenic state-led policy of ISI-promotion and EXA export-accommodation.[9] Costa Rican technocrats, who had been co-opted by CEPAL into adopting the model, well understood that the schizophrenic model would deepen export dependency but they proceeded in the belief that they ought

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[1] CEPAL – Comisión Económica Para América Latina y el Caribe; For a more detailed account of economist Raúl Prebisch's work, see Hirschman 1968; Prebisch 1978, 1979; See also Bulmer-Thomas 1987, 118, 168, 172; Wilson 1998, 107; The CACM will be discussed below.
[2] Wilson 1998, Ch.4; Bulmer-Thomas 1987, 110, 150; Mesa-Lago 2000
[3] Mesa-Lago 2000; Bulmer-Thomas 1987, 110,150
[4] Bulmer-Thomas 1987, 111
[5] Bulmer-Thomas 1987; *cf.* Chapter Three above. See also Germain 1997 and Reifer 2000.
[6] Bulmer-Thomas 1987, 171
[7] Goss and Pacheco 1999; Bulmer-Thomas 1987
[8] Bulmer-Thomas 1987, 173
[9] Wilson 1998, 95; Mesa-Lago 2000

not to alienate the traditional oligarchy and in the faith that the model would reap CEPAL's professed political and social modernization.[1] The overall result was the stillbirth of an alternative growth model. Production remained capital-intensive, biased towards consumer goods, heavily dependent on imports, and with few opportunities for backwards linkages because of import preferences inherent to the system; in other words, the schizophrenic ISI/EXA CACM development model further deepened dependency on EXA capital and their foreign earnings.[2]

Despite the late 1960s' and early 1970s' decline, the CACM's industrialization benefits, shaped and financed by US President Kennedy's Alliance for Progress[3], were substantial and attractive – so much so that they were taken up by foreign, largely American, capital that began to acquire a dominant position within leading industrial branches.[4] In contrast, domestic capital, cajoled by state appeasement strategies, remained by-and-large within the EXA sector. Within this 'facilitating' context, Costa Rican industry thrived with more than 100 new industrial companies being established between 1963 to 1975 and annual profits growing by 19% between 1962-1973 – a profitable context made possible by the state (under US tutelage) via tax incentives, labor negotiations, and the centralization of infrastructure within the Central Valley.[5] By the 1970s, industrial foreign capital's relative power had grown, through a series of fluid relationships with traditional power holders within the power bloc (EXA, finance, commerce), and was now in a position to have a much greater degree of influence upon the emerging, post-CACM development model that was, at the same time, experiencing the end of the so-called 'easy' phase of ISI.[6]

Through the 1970s, both the PLN administrations of Figueres (1970-74) and Oduber (1974-78) continued to give high priority to industrial development in attempts to decrease vulnerability to the still dominant EXA model, but the 1970s oil shocks kept

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[1] Wilson 1998, Ch.4; Bulmer-Thomas 1987, 197
[2] Mesa-Lago 2000; Bulmer-Thomas 1987, 194-96; Wilson 1998, Ch.4; Richards 1997, 31
[3] The Alliance for Progress was an aggressive extension of the more-than-a-century-old, softer Monroe Doctrine that called for American hegemonic influence in the Americas. The Alliance for Progress, like the Marshall Plan in Europe, was a policy of purchasing allies with economic concessions (Rowland 1976, 244). *Cf.* the later Kissinger Plan and Caribbean Basin Initiative of the 1980s era (see Robinson 1998, Goss and Pacheco 1999; refer to Ch.5 below).
[4] Wilson 1998, 107; Bulmer-Thomas 1987, 176
[5] Goss and Pacheco 1999; *cf.* Richards (1997) and links between tax incentives and class-based booms.
[6] Bulmer-Thomas 1987, 192; for a discussion on the various phases of ISI, see Hirschman 1968

EXA commodity prices high (e.g., coffee) and therefore important to overcome rising import costs.[1] Nonetheless, the early 1970s did experience a switch in development strategies toward establishing state-owned enterprises (SOEs) as a means of channeling finance into new industries with a majority local-shareholding through the newly-formed development corporation, CODESA (Corporación Costarricense de Desarrollo).[2] For the first time, CODESA, as a state-run corporation, gave Costa Rica an important share of industrial output through its majority-equity shares.[3] On the other hand, the maneuver shifted scarce financial resources towards large industry thereby implying that cutbacks had to be made elsewhere, such as in available credits for small farmers.[4] By the early 1980s and in the context of world recession, the financing of SOEs proved an unbearable strain as Costa Rica's financial system was laid bare by the 1982 debt crisis' effects.[5]

Labor's Tensions

The Costa Rican state has consistently sought to resolve the tensions experienced by capital over the shortage of labor. By opening up previously inaccessible lands to agro-export capital, the state broadened and deepened capital's dominance by 'proletarianizing' peasants – state-authored strategies that forcibly integrate peasants into the circuit of capital as new sources of flexible labor by removing their means of subsistence living (e.g., land).[6] Growing EXA production and state-promoted industrial production also threatened small farmers and DUA by absorbing available credits so that, by the end of the 1960s, DUA had considerably diminished in Costa Rica but whose labor was absorbed into EXA production.[7] Consequently, by the 1970s, a sharp increase in the proportion of labor wholly or largely dependent on wages appeared due to state-backed modernization and its associated proletarianization, whose apex occurred at the same time as the 1970s oil shock and related inflation that brought real-wage losses.[8] The situation provoked two related responses within the labor movement: (1) workers pressured the state to ameliorate the critical situation faced by wage-earners and; (2) workers formed new labor organizations to cope with the increasingly hostile

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[1] Mesa-Lago 2000; Wilson 1998, Ch.4
[2] Mesa-Lago 2000; Wilson 1998, Ch.4; Refer to Ch.5 and the post-1982 successful efforts to privatize of CODESA.
[3] Mesa-Lago 2000; Bulmer-Thomas 1987, 208
[4] Bulmer-Thomas 1987, 208
[5] Clark 1997; *cf.* Chapter Three above
[6] Bulmer-Thomas 1987, 162; *cf.* Richards 1997
[7] Bulmer-Thomas 1987, 190
[8] Bulmer-Thomas 1987, 218; see also Mesa-Lago 2000

environment.[1] In Costa Rica, this produced positive results insofar as workers and popular classes were able to wring a greater share of the GDP for themselves thereby reducing the gap of unequal income distribution.[2] Also as a reflection of increasing popular unrest, the 1970s saw the socially progressive formation of local co-operatives, a set minimum wage standard annually adjusted for inflation, the extension of the social security program, and limited land reform for the peasants.[3] However, greater numbers of unions and membership helped bring rapid recovery in real wages and popular militancy led to a policy of accommodation, which was nevertheless coupled with occasional state repression (as opposed to overtly hostile repression elsewhere in Central America).[4] Thus, while popular resistance proved fruitful in some regards, the post-war period generally intensified and broadened the structural power of capital by incorporating more and more people within the confines of the social relations of capitalist production.

III
CONCLUSION

As Polanyi signaled, following the Crash of 1929 a global move occurred away from the dominance of finance ($M\text{-}M^1$) back towards productive capital ($M\text{-}P\text{-}C\text{-}M^1$) occurred. Under *Pax Americana* the progressive opening-up of previously closed market spaces of subsistence peasant production (C-M-C) transpired to the benefit of capital-in-general. Near the end of the 1960s and 1970s, the capitalist social relations of production once again entered into a period of predestined crisis of overproduction/overaccumulation whence we see the post-1980s resurgence of finance capital over production capital in a bid to regain waning profit levels and reconstitute failing America hegemony.[5] Domestically, Costa Rican *Pax* Americana-based social relations of production could not be reproduced and began to unfurl, even though the post-war period had been one of rapid and relatively successful development.[6] The particular model of dependent and schizophrenic capitalist development became exhausted by the late-1970s and entered

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[1] Wilson 1998; Bulmer-Thomas 1987, 219
[2] Seligson and Muller 1987, 310
[3] Wilson 1998, Ch.4; Bulmer-Thomas 1987, 220; Mesa-Lago 2000
[4] Bulmer-Thomas 1987, 224
[5] See Chapter Three above.
[6] Robinson 1998; Vilas 1995, in Robinson 1998

crisis in the late 1970s and early 1980s.[1] The increasing proletarianization of the peasants witnessed during the BW era was extended and later intensified under neoliberalism. In this light and given the 1980s rise of neoliberal ideology, the 'social' gains struggled for during this pre-neoliberal period only went so far as to ensure the sustained legitimacy of the capitalist mode of production and domination, even though at times the state's social reforms were detrimental to fractions of capital (e.g., the nationalization of banking). It is only from this historical context that the emergence of neoliberalism in Costa Rica can be fully grasped as a historical, class-based, ideological moment aimed at overcoming barriers to capital valorization, a moment that is rooted in pre-existing capitalist forms of political domination.

[1] Robinson 1998; *cf.* Judson 1993; see also Bernard 1999 regarding dependent capitalist development; See Chapter Three above

CHAPTER FIVE

PRIVATIZATION AS A METHOD OF DOMINATION

[Privatization is] the greatest exchange ever between private citizens and their governments.

The Economist, 1985[1]

[Privatization] displaces an existing structure of oppositions – "them" versus "us". It sets in its place an alternative set of equivalents: "them and us equals we." Then it positions we "the people" – in a particular relation to capital: behind it, dominated by its imperatives (profitability, accumulation): yet at the same time yoked to it, identified with it.

Stuart Hall, 1983[2]

Privatization Panaceas: For Whom?

In jest, the question of "what is communism?" invokes the neoclassical economists' response, "the longest road from capitalism to capitalism"; in all seriousness, one of the major obstacles to reaching the promised land of neoliberal capitalism, they argue, is the slow progress made towards privatization – the vanguard strategy of neoliberal reform and the Washington consensus.[3] Common sense understandings of privatization assert that within a capitalist free market-based economy, decisions about buying, selling, pricing, producing, borrowing, and lending are best made by private agents.[4] The privatization of public assets, it is assumed, induces higher efficiency and the better allocation of scarce resources.[5] As foundational liberal political economist Adam Smith wrote, "the sale of the crown lands would produce a very large sum of money which, if applied to the payments of the public debts, would deliver from mortgage much greater

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[1] in Ramamurti 1992b
[2] in Feigenbaum and Henig 1994, 200
[3] Samuelson and Nordhaus 1998, 553; Williamson 1990, 1993; For a liberal take on the slow progress of privatization, see Radzyminski 1999 and Vargas-Cullell 1998. Many others have commented uncritically on Costa Rica's slow pace as well, often citing institutional processes as the protagonist (Wilson 1998; Booth 1998; Clark 1997).
[4] Samuelson and Nordhaus 1998, 553; See also Ordover and Uribe 1999, Gray 1996, Agosin and Ffrench-Davis 1995;
[5] Ordover and Uribe 1999; Larrain and Lopez-Calva 2001; Estache, Gomez-Lobo, and Leipziger 2000

revenue than any which those lands ever afforded to the crown .... When the crown lands had become private property, they would, in the course of a few years, become well improved and cultivated."[1] Privatization, then, is a panacea for both individuals and governments alike. Contemporary neoliberals agree, arguing that the sale of state-owned enterprises (SOEs), such as telecommunications, petroleum, and infrastructural industries, is a most rational way to cut government deficits, facilitate efficiency, and improve individual liberty[2]: "[P]rivatization can liberate developing economies...."[3] In this light, mass neoliberal privatizations in Latin America, and specifically in Costa Rica, have been ideologically sterilized within common sense understandings that merely denote privatization as the transfer or divestiture of inefficient publicly owned enterprises from the hands of the state into the hands of the efficient private sector; therein, safeguarding private property is of paramount importance so as to facilitate and simplify financial transactions.[4] However, privatization thusly defined by its own advocates obscures its class-based inner character.

Building upon the previous chapter's argument that neoliberalism emerged from specific material and historical conditions, *Chapter Five* will argue that contrary to common sense understandings as a wholly economic policy, privatization is a method of political domination that deepens and intensifies the structural power of capital.[5] That is, privatization serves as a *means* to the neoliberal *end* of restructuring the social relations of capitalist production and hence, domination, to the benefit of the capitalist class by fortifying capital's dominance over the popular classes by way of the state. In particular, privatization embodies three strategic goals: (1) to open up publicly-owned economic space for capital valorization; (2) to extend and intensify labor's subjugation under capital; and (3) to reconfigure the state as field of class struggle.[6]

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[1] Smith 1776, 824
[2] Gray 1996; Coes 1998; Vargas-Cullell 1998; Buttari 1992
[3] USAID administrator Peter McPherson, in Barry and Preusch 1988, 3; *cf.* similar arguments forwarded by the World Bank, see Gray 1996.
[4] Ramamurti 1992, 93; Sequeira in Ghosh, Tanski, and Enomoto 1996; Coes 1998; Larrain and Lopez-Calva 2001; Lecuona and Momayezi 2001; Vargas-Cullell 1998; Patomäki 2001, 16
[5] Drawn from Soederberg 2001b; Richards 1997; Brodie 1997; Rupert 1990; Cypher 1989; Feigenbaum and Henig 1994; Refer to Ch.1 for the discussion of common sense understandings of neoliberalism (*cf.* Gramsci). On domination and ideology, also refer to Ch.One above.
[6] Soederberg 2001b; Cypher 1989; Feigenbaum and Henig 1994; *cf.* Hall's quote above

Economic Crisis and Privatization

Objectively, the nature of capital valorization and inherent, yet unpredictable, crises within capitalist relations of production demand that capital constantly seeks new markets and increased forms of labor exploitation in order to persist.[1] Privatization, as a means of class domination, may or may not be a conscious motivation of capitalists but is a predictable consequence of the exploitative relationship between capital formation and crisis. While the individual capitalist no doubt has choices in this regard (i.e., whether to participate or not), capitalism as a mode of production *cannot* be reformed so as to overcome its basic and inherent contradictions. Capital has always been global in nature, must expand to survive, and must constantly expand and intensify its dominance over labor, which in turn brings recurrent crises of overproduction and overaccumulation.

Neoliberal privatization's ripe opportunity arose out of the crises that culminated in the world recessions of 1974-75 and 1979-1982, which saw declining US productivity and falling rates of profits, and therefore a declining US hegemony. At that point, capital-in-general flew to peripheral economies in order to help overcome labor as a barrier, which took the form of greater worker expectations for increased wages, job security, and better working conditions, being experienced within core industrialized nations, particularly the US. In other words, the institutionalization of workers' expectations within the industrialized state was presenting challenges to firms' profitability because of a greater balance of power between labor and capital. The cheap and more easily exploitable labor within emerging markets, due to a greater imbalance of class forces between labor and capital that has historically manifested in weaker labor codes and smaller shares of the GDP as well as the popular and peasant classes being increasing proletarianized in the post-war era[2], served as a temporary solution for capitals to overcome the barriers to the valorization of capital imposed by the crisis of overaccumulation while domestic political elites, technocrats, and capital within emerging markets were pressured to open up capital accounts in order to overcome weak US domestic savings.[3] Under the US-authored emerging Dollar-Wall Street Regime (DWSR), finance capital began a process of swift resurgence within the world market and context of the end of the Bretton Woods system;

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[1] The following section's discussion draws from Chapters Two and Three above and their discussions on crisis and US hegemony. *Cf.* Poulantzas 2000; Clarke 1988, Bonefeld 1999, Rupert 1990; Dumenil and Levy 2002; Reifer 2000

[2] *cf.* Chapter Four

[3] Cohen 2001

financial market transformations and mounting commercial bank competition in major industrial nations also created the impetus for increasing flows of capital into the political South.[1] How was this reformation achieved?

The Tools of Trade and American Hegemony

Changes in the social relations of capitalist production under neoliberal globalization cannot be wholly understood within a narrowly domestic perspective, but rather as a dialectical intersection with the international sphere. Privatization in Costa Rica materialized by way of a US-based international web of class-based power relations that reached into Costa Rica's social formation and wooed domestic capital and political elite allies. The initial state-authored web of international development and trade-promoting tools emanated from the IMF, World Bank, and the USAID as vanguard international financial institutions (IFIs), as well as various international 'development' initiatives, such as the US's Caribbean Basin Initiative (CBI), the Kissinger Plan, the Brady Plan, the Enterprise for the Americas, among others, all of which sought neoliberal, free market-led growth (which, ironically, is clearly led by a number of 'Plans' and 'Initiatives').[2] These tools helped reconstitute fading US hegemony toward the emerging DWSR because they actively altered global, *Pax Americana*, production relations to the benefit of the US political economy while creating selective peripheral capitalist (e.g., agro-export, industrial, and finance) and political benefactors.

Alongside IFI-sponsored stabilization, SAPs, and Agency-supported internal restructuring[3], the trade-promoting tools of the CBI, which was established in 1982 and whose terms were again extended in 1990, and the Kissinger Plan (1984), entailed economic and military assistance, tariff exemptions, and trade incentives geared towards export promotion to the US as part of US President Reagan's pledge to aid Central America on the road to self-sustaining development.[4] The CBI also served to bring a

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[1] Patomäki 2001; Gowan 1999; Cohen 2001; See Ch.3 for a discussion on the DWSR based upon seignorage.

[2] Vega Carballo 1993, 30; Valverde 1993; Dolinsky 1990; Gnosh, Tanski, and Enomoto 1996; Wilson 1998, ch. 5; Clark 1997; *Cf.* Chapter Three above for the wider 'cross-conditional' processes involved with the emergence of neoliberalism in Costa Rica and the roles of the Agency, IMF, and World Bank.

[3] *Cf.* Chapter Three above; For example, in 1986 the Agency stipulated that a $120 million USD low-interest credit line be opened by the Central Bank for the exclusive use of private industry with a preference for exports (Honey 1994, 79).

[4] Barry and Preusch 1988, 19; Dolinsky 1990, 82; Robinson 1998

substantial inflow of foreign capital from East Asia to Central America due to the CBI/state-induced comparative advantage.[1] Yet another US-based initiative, the 1989 Brady Plan, which focused on debt relief, was extended to Costa Rica and, following similar IMF, WB, and USAID dictates, required sweeping economic reforms that included the privatization of core public sectors.[2]

However, the CBI, Kissinger, and Brady initiatives, among other plans such as US President Kennedy's earlier 'Alliance for Progress' (1961) and George Bush Sr's later 'Enterprise for the Americas' (1990), are part of the larger processes of neoliberal economic globalization that have entailed the re-extension of US capitals' dominance internationally under the argument that the old state-led economic development model must be transformed because it is no longer viable.[3] In other words, the so-called economic initiatives are instead strategies of domination masked within discussions of progress, development, and democracy that ought to be interpreted as part of America's bid for reconstituted hegemony based on neoliberal ideology.[4] Intimately tied to the work of the Agency and the IMF/WB, these strategies of dominance have sought to ease the relocation of American production and open peripheral capital markets; such strategies helped re-insert Costa Rican capitals into the emerging globalized circuits of capital, thus creating new capital fractions within the established Costa Rican power bloc.[5] In this sense, Costa Rica became a 'staging post' for capital allowing equal treatment to foreign and domestic capitals alike to facilitate their extension.[6]

The American-based strategies of renewed dominance have effectively altered existing Costa Rican social relations of capitalist production by explicitly privileging export-promotion industrialization (EPI) and foreign capital over publicly-owned and domestically-directed import-substituting industrialization (ISI) and domestic-use agriculture (DUA) development, not to mention any form of subsistence production. This reconfiguration of class compromises and production relations similarly alters the

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[1] Robinson 1998; Wilson 1998, 123

[2] Dolinsky 1990, 79 (FN1); For wider mainstream discussions of the Brady Plan, see Welch 1995; Ramamurti 1992.

[3] Drawn from Robinson 1998, Dolinsky 1990; Honey 1994; The 1961 Alliance for Progress sought to stimulate economic growth, but with a focus of state-led development; the Enterprise for the America's growth dynamic focused upon market-led growth, as was the CBI (Porter 1990).

[4] *Cf.* Rupert 1990

[5] *cf.* Robinson 1998

[6] Soederberg 2001c; Holloway 1995

power bloc and, by extension, the state as a field of struggle.[1] EPI promotion, which is directed toward the US market, cannot *but* decrease Costa Rica's already limited DUA capacity (domestically or regionally given certain ecological limits) to be relatively self-sustaining, which, as we have already seen, is a constant tension within Costa Rica's historical political economy[2], thereby necessarily exposing Costa Rica to a greater dependency on imports produced within the world market, and by extension, to foreign capital.[3] The objective effect of this change in production relations is a broader-based subjugation of the Costa Rican state to the structural power of global capital as Costa Rica is more fully integrated into the global capitalist social relations of production and division of labor. Such growing structural constraints increasingly affect the 'realm of the possible' by limiting legitimate alternative possibilities, such as de-linking or shielding the state from increasingly exploitative capital valorization relations, because of the state's increasing embeddedness and subjugation under dependent capitalist development and the structural power of capital. At the same time, however, certain exclusions within the tools of trade protect key domestic US industries (e.g., petroleum derivatives, refined sugar, etc.) thereby supporting America's domestic production capacity and, hence, power.[4] How does this more intense subjugation under capital at the international level translate into Costa Rica's domestic social relations?

Reconfiguring Costa Rica's Power Bloc and Gaining Consent

Economic globalization, neoliberalism, and privatization are not natural phenomena, but socially-constructed moments that have arisen out of socio-political class struggle and capitalist economic decay and reconstruction.[5] The 1982 debt crisis provided a moment rich with opportunity to reconstitute America's hegemony, but an opportunity that, to be successful in Costa Rica, needed to attain domestic consent.[6] The privatization of SOEs in Costa Rica, many of which were profitable, sold at bargain prices, and were socially contested, would have to ensure extended benefits for the pre-existing domestic bourgeoisie and capital interests (the power bloc) so as to help secure action; these class benefits, however, often came at the expense of the general populace in the form of lost

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[1] Poulantzas 2000

[2] See Chapters Three and Four above; Bulmer-Thomas gives an extensive account of this recurrent struggle between domestic and export-based agricultural production (1987).

[3] *Cf.* Bernard 1999 and his discussion of dependent capitalist development in East Asia.

[4] Honey 1994, 126

[5] Gowan 1999; Rupert 1990

[6] *Cf.* Chapter Two and Three above; Cypher 1989; Valverde 1993; Sojo 1991

tax revenues, loss of public ownership, minimized social programs, etc.[1] Privatization efforts, in the above sense, thus seek to restructure existing class compromises by extending benefits to the capital class with access to large amounts of money.[2]

One the most significant moments in the restructuring of Costa Rica's social relations was the founding of the Agency-funded parallel state institution CINDE (Coalición Costarricense de Iniciativas para el Desarrollo), an export-promotion center that sought to mimic, then better, the pre-existing state-led export promotion center, CENPRO.[3] The historical formation of CINDE came out of an earlier domestic bloc that represented the private Costa Rican bank, BANEX – a bloc composed of private bankers, industrialists, and coffee exporters who were seeking injections of fresh capital in the midst of the 1979-1982 world recession.[4] The BANEX bloc was viewed as a potential domestic ally for diversifying Costa Rica's export base and liberalization reforms by the Agency, who made an initial $10 million loan to the BANEX bloc in 1981 to be used exclusively as a private enterprise 'special credit line'.[5] Daniel Chaij, then Agency director, subsequently initiated bi-weekly breakfast meetings with the BANEX bloc from which arose the Agency's offer to fund CINDE, which officially became operational in January 1983 with a board of directors selected during USAID/BANEX meetings.[6] By 1990, the success of CINDE was being touted internationally by USAID as the model for private-sector export promotion.[7] Domestically, CINDE boasted that it had brought 120 foreign companies with $353 million, exports of $305 million, and 30 000 new jobs; however, these firms paid little tax and enjoyed many import concessions under the CBI and like initiatives, while the supposed benefits of wages have proven dubious at best.[8] CINDE, as such, was a conduit to channel US funds into the Costa Rican private sector directly thereby augmenting the power bloc's power.[9]

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[1] Richards 1997, 29; Robinson 1998; Vargas-Cullell 1998; Sojo 1991
[2] Gowan 1999, 57
[3] Wilson 1998, 122; Clark 1997; Honey 1994, 97-98; 114-32
[4] Clark 1997
[5] Clark 1997; Honey 1994, 66
[6] The board was composed of seven businessmen tied to financial, industrial, and coffee capital, an economist, a political scientist, and an engineer/government technocrat; the majority had links to the ruling PLN government (Clark 1997).
[7] Clark 1997; Honey 1994, 115
[8] Honey 1994, 116
[9] Honey 1994, 116

Acting within an international web of power relations, CINDE was a class-based forum that helped create and organize neoliberal hegemony at the domestic level. Ideological hegemony was fostered through CINDE by establishing explicit linkages to the CBI and other tools of trade; for example, CINDE would send board members to CBI-sponsored trade conferences in the US, Europe, and Asia so as to attract foreign investment and promote non-traditional exports, which alters domestic class compromises.[1] So too have many leading political figures, from both major-centrist political parties, the PLN and PUSC, worked for or received contracts from various Agency-funded parallel institutions, which has helped coagulate a closer alliance between domestic and inter-state capital interests.[2] Over time, CINDE became an important domestic power lever for the privatization of CODESA and the national Costa Rican financial system under the auspices of USAID through both formal and informal linkages.[3] CINDE's financial resources and ability to foster internal and external class linkages smoothed the emergence of neoliberalism and privatization.

Breaching Costa Rica's Banks

Originally hailed in 1948 as a staple of national development and for its 'democratization of credit', Costa Rica's National Banking System (SBN) came under intense privatization/denationalization pressure due to its significance within the emerging neoliberal financial orthodoxy and to providing benefits for domestic capitals seeking additional state-credits.[4] Eduardo Lizano (Central Bank president for most of the 1980s and important neoliberal technocrat involved in the SBN's privatization) summarized the neoliberal rationale, arguing that "you cannot expect to have a vigorous business sector if you don't have a vigorous banking system, and you cannot build a modern industrial sector based on the four state banks."[5]

To initiate SBN privatization, a class-based neoliberal coalition of American and Costa Rican capitals and political elites formed. Efforts began to crystallize in 1982 when the Agency provided over $60 million in incentives towards financial reform that allotted private banks favorable access to exchange rates that paralleled those available to state-

[1] Clark 1997; Honey 1994, 125
[2] Drawn from Wilson 1998, 122
[3] Clark 1997
[4] Goss and Pacheco 1999; Clark 1997; Honey 1994, 78
[5] in Honey 1994, 79, 85

owned banks through the Central Bank.[1] Pressure was unrelenting through the 1980s when, in 1984, the important Law of Money (*Ley de la Moneda*), amidst intense pressure from the PLN ruling elites, state technocrats, domestic capitals, the US ambassador to Costa Rica Winsor, *La Nación*[2], Agency director Chaij, IMF conditionality, and rumors of a *coup*, was passed after 23 hours of straight legislative deliberation, thereby breaching public controls on domestic savings by allowing private banks to receive term deposits of more that 180 days and permitting certain transactions in US dollars.[3] In 1987, the IMF maintained denationalization pressures and made the approval of the Modernization of the National Banking System Act (1988) a requirement of Costa Rica's second structural adjustment loan, an Act which signaled the complete deregulation and effective privatization of the banking sector.[4] This same 1988 Act removed the Ministers of Planning and the Economy from the Central Banks' board of directors, which had hitherto favored social development over monetary considerations, and gave the majority of board seats to the private sector, thereby shifting state power configurations.[5] So too did the 1988 Act now guarantee deposits (notably following the October 1987 Wall Street crash) in private banks and finance companies by the state; this meant, as Ottón Solís put it, that "profits are privatized while losses are the responsibility of the state."[6] The SBN's 'democratization of credit' had been replaced by the 'socialization of risk'. Who benefits and why?

Finance and American Hegemony

Successive US administrations and Costa Rican domestic allies together have sought a power re-configuration within the state, a reconfiguration that was a reflection of change within the US and other advanced capitalist states and of the emergence of the DWSR. Costa Rican restructuring was facilitated through the Agency, tools of trade, IMF/WB,

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[1] Brenes 1990, 74; Goss and Pacheco 1990; The deadline given by USAID for Costa Rica to comply, March 1983, was deemed unrealistic given the general economic crisis and they were therefore not held to it (Wilson 1998, 127).

[2] *La Nación*, Costa Rica's leading daily, ran an aggressive campaign during the period of the denationalization debate over banks denouncing the "dogma of the nationalized banking system" (Honey 1994, 82).

[3] Honey 1994, 80-86; Booth 1998, Ch. 8

[4] Valverde 1993; Goss and Pacheco 1999

[5] Honey 1994, 88

[6] in Honey 1994, 88; *cf.* the principle of 'individual profits, socialised risks' (Patomäki 2001, ch.4); Solis was then Costa Rica's PLN Planning Minister; However, in the recent 2002 Presidential elections, in a break-off party, Solís took an incredible 26% of the first round of voting in a historically two-party system.

and domestic ruling parties, which fundamentally sought to change the nature of Costa Rica's relations of production and, in particular, its SBN.[1] As we saw in Chapter Three, the Bretton Woods system had previously given precedence to public control of finance. However, as a means of overcoming US capitals' waning productivity and falling rates of profit, global finance re-gained prestige as a means to valorize capital[2]; this has had the dual effect of facilitating the US's drive to maintain hegemony while, at the same time, constraining US power due to the state-authored ascension of highly chaotic finance capital that has transformed pre-existing power relations, which favored a more stable form of production-based capital accumulation.[3] Domestic American social relations of capitalist production have been similarly put under the structural constraints of finance capital and, thus, a US-based domestic power reconfiguration has similarly occurred.[4] However, as the world market hegemon and unlike Costa Rica, the US's domestic power re-configuration plays out internationally between domestic centers and is manifested as an international struggle between capital and labor.[5]

As an objective function of capital valorization, it is to the benefit of American capitals, particularly finance capital, to forcibly incorporate more and more emerging markets into the overall global circuit of capital valorization.[6] This drive to maintain, deepen, and intensify the global free movement of capital is also domestically supported by American popular classes who are all the time more subjugated under the structural power of capital as their own class-based interests rest more and more with the progressively intensive exploitation of additional emerging markets to relieve domestic pressures on labor within the global division of labor, progressive exploitation that serves to protect their own domestic class compromises (e.g., a much higher average middle-class wage).[7] The further incorporation of the petty bourgeois, middle-class, and investor classes is exemplified by their striking increases in mutual fund participation, which is linked to the subsequent privatization and capitalization of emerging markets, which links the popular

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[1] Drawn from Goss and Pacheco 1999; Cypher 1989
[2] Gowan 1999; Patomäki 2001; Cohen 2001
[3] Soederberg 2001; *cf.* Patomäki 2001, 24, 130, 213; Cohen 2001; Gowan notes a shift within domestic power relations to help facilitate change (1999, 79).
[4] Cohen 2001; The linkages between Wall Street, multinational corporations, and the US Treasury as a coalition of forces has been discussed elsewhere under the "Wall Street-Treasury complex" (see Wade 1998 & 1999).
[5] Cohen 2001; Soederberg 2001b; Rupert 1990
[6] Cohen 2001; Wade 1998
[7] Drawn in part from Cohen 2001

classes to the global financial markets and finance capital.[1] Costa Rica, which is not exempt from this trend, is also witnessing a similar form of incorporation via increased interest is 'industrial democracy' through a form of worker ownership being promoted in employee stock option plans.[2] In the final analysis, however, the class-based benefits of financial liberalization for domestic and foreign capitals are derived from being exposed to greater sources of capital, more easily, at more competitive rates, and over time, to capital-credits guaranteed by the state.[3] The benefits for the American state, as a social relation that involves both popular and capitalist classes, derive from their need to tap the rest of the globe's savings in order to maintain their high levels of consumption and investment as integral to continued hegemony, which affords the US certain hierarchical benefits not available to other states.[4]

In terms of manufacturing ideological hegemony, the privatization of finance and production also serves an important function of political domination that is tenuous to draw out – namely the social factor of 'trust'. The neoliberal shift to more pure forms of financial speculation requires a higher degree of trust and confidence in the system, especially given ever-increasing levels of volatility within financial markets.[5] Privatization, by progressively incorporating the popular classes within financial markets (e.g., mutual funds, stock options, not to mention IMF/WB loans, etc.) ensures that more people are 'petty' stakeholders and therefore have much more to lose if trust and confidence is lost in the financial system (for example, than if they had a predominantly domestic-based economy with capital controls), or, by extension, if others lose confidence and threaten the overall functioning.[6] Therefore, national, regional, and global authorities, from capitalist states to state-authorized IFIs, attempt to secure and

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[1] For a much fuller discussion of mutual funds and the power of reproduction, see Harmes 1998 and 2001.
[2] Melmed-Sanjak, Magid, and Santiago 1993, 10
[3] Honey 1994, ch.5
[4] Wade 1998; *cf.* Gowan and DWSR/seigniorage, Ch.3.
[5] *cf.* comments made by Joe Quinlan, senior analyst at the investment bank Morgan Stanley, that the greatest threat (near the end of the 1990s) is the unravelling of globalization (in Gowan 1999, 3-4).
[6] Drawn from Patomäki 2001, Ch. One; Krugman's 'confidence game', in Cohen 2001; Here, petty-stakeholder refers to the many middle-class small-scale investors/savers who are increasingly tied into the financial markets through pensions and mutual funds, as well as company stock options (see Brancato 1997; Blackburn 2002).

maintain such trust through a milieu of material, political, and ideological means such as neoliberalism.[1]

Privatization, Surplus Value, and the Subjugation of Labor

Surplus value is the value appropriated by the capitalist, but created by the laborer; it is created within the circuit of capital, wherein capital is a social relation between capital and labor, a relation that moves within the international sphere of the labor and exploitation processes in which capital can only reproduce itself through transnationalization regardless of whether its various forms may appear deterritorialized.[2] Privatization is a method of political domination because it subjugates labor more intensively within the capitalist relations of production so as to facilitate the progressive valorization of capital while simultaneously extending and intensifying the proletarianization of the popular classes through the increased commodification of labor. More intensive and extensive subjugation, in turn, helps secure neoliberalism's hegemonic position so that no alternatives seem possible (e.g., public ownership or, more radically, delinking).[3]

Privatization as a method of domination is materially exemplified by the Agency-championed case of CODESA (Corporación Costarricense de Desarrollo, Sociedad Anónima), the Costa Rican state-run development corporation.[4] Designed to immediately reduce Costa Rica's proposed deficit, the Law of Financial Equilibrium of the Public Sector (more popularly know as the Emergency Law) was passed in 1984 to begin CODESA's privatization as Agency-conditionality barred any further government loans to CODESA.[5] By 1985, under the banner of 'economic democratization' and

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[1] Patomäki 2001, 24; Gowan notes the importance of the IMF/WB to the integrity of the international financial system and defending US exploitation under the DWSR (1999, 42).
[2] Poulantzas 2000, 106; Milward 2000, 200; For a fuller discussion of capital, see Ch. Two above.
[3] *cf.* Soederberg 2001b; Feigenbaum and Henig 1994, 200; Cypher 1989
[4] Sojo 1991; Wilson 1998, 125; Honey 1994, 105; CODESA was originally formed in 1972 as a government holding company and development bank, but by the 1980s, it was operating under a stifling deficit.
[5] Mesa-Lago 2000; Wilson 1998, 126, 133; Honey 1994, 107; Valverde 1993; Another portion of the Emergency Law allowed for massive export production tax breaks (i.e., tax free) on imported manufacturing equipment and local inputs while removing export taxes as well within the maquila industry (Honey 1994, 122; *cf.* CBI). Later, CINDE-paid consultants wrote the 1990 Export Contract Law that deepened maquila industrial penetration, created free-trade zones, and facilitated export contracts (Wilson 1998, 122-23; Honey 1994). In terms of cross-conditionality, both the IMF and the World Bank had also conditioned loans on CODESA's sell-off (Brenes 1990, 130-31).

USAID tutelage, Costa Rica began to sell off or simply fold CODESA's subsidiaries, which included the privatization of the significant SOEs of CATSA (sugar), ALUNASA (aluminium), and FERTICA (fertilizers), many of whose final sale prices to the private sector were well below the book value set by the national comptroller, but whose price paid to the Costa Rican state were considerably higher (i.e., the Agency subsidized capital's entrance into the market).[1] To this end, the Agency established a $160 million trust fund in 1985 to facilitate this process and, while it had progressed much slower than they had expected, by 1996 the Costa Rica congress had passed a law closing down CODESA thus permanently representing a dramatic reduction in the state's role in production, which itself implies a reconfiguration of power relations between the power bloc and popular classes.[2]

The effects of CODESA's privatization, as merely one example of privatization, include the following: (a) the provision of significant foreign and domestic capital accumulation opportunities; (b) the removal of the state from direct production; (c) the removal of fractions of labor from direct connection to state apparatuses, thereby mitigating labor's influence within the state; and (d) the reorientation of domestic production towards exports, which increased foreign capitals' dominance within the restructured power bloc.[3] To the benefit of Costa Rican finance and export capitals, CODESA's privatization released state credits, of which almost one-third had been previously used by CODESA.[4] Privatization in more socially-oriented sectors, like health, also served to exacerbate social stratification as access is determined by one's capacity to pay rather than by need.[5] As we saw in Chapter Three, the emergence of neoliberalism also witnessed a drop in the percentage of workforce employed by the state over the 1980s and 1990s, but equally important there was a distinctive shift in the remaining public sector workforce to positions within the central government directly as opposed to semi-autonomous subsidiaries. At the same time, all workers' wages fell over this same period.[6] This has

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[1] Sojo 1991, 72; Vargas-Cullell 1998; Honey 1994, ch.5; Honey also notes that, generally, Costa Ricans were dissatisfied with the financially troubled conglomerate, which was indeed in need of an overhaul, if perhaps not an Agency-led sell-off (also see Sojo 1991). Sojo argues that USAID had to subsidize the initial phase of privatization or it may not have proceeded as smoothly (1991).
[2] Sojo 1991; Mesa-Lago 2000; Vargas-Cullell 1998; See also Honey 1994, ch.5; Booth 1998, 126
[3] Drawn from Sojo 1991, Cypher 1989; Honey 1994; Mesa-Lago 2000; Robinson 1998; Clark 1997
[4] Mesa-Lago 2000; Booth 1998, 125
[5] Valverde 1993, 44
[6] Booth 1998, 169

led one commentator to argue that for those concerned about "social justice, the neoliberal revolution in Costa Rica represents a catastrophe."[1] More succinctly, privatization has led to increased and more widespread subjugation of the popular classes under the exigencies of capital valorization brought on by recurrent crises. In turn, this has signalled a reconfiguration of the state and forms of state intervention.[2]

Privatization and Reconfiguring the Field of Struggle

The political economic reconfiguration presupposed by privatization shifts power centers away from social objectives towards more purely economic ones within the state.[3] Shifting power centers benefits capitals by privileging market-based and capital valorization-oriented state apparatuses and certain capital fractions within the power bloc; the shift, however, mitigates labor's material presence and, hence, relative power within the state as a field of struggle.[4] The formation of CINDE, the restructuring of the Central Bank's board, and CODESA's sell-off are a few exemplars of the shift and the tight links between domestic and foreign capitals, state political and technocratic elites, and the Agency. Additional proofs of this state-authored reconfiguration include the major cabinet shuffle in 1984, which saw the allocating of important economic and financial state apparatuses to neoliberal technocrats closely tied to key IFIs and the Agency, which included French-schooled Eduardo Lizano's appointment to the Central Bank.[5] Domestic class-based attempts to reconfigure the field of struggle are also evident in the early 1980s proposal made to US ambassador Curtin Winsor by Costa Rican PUSC and PLN political elites and Eduardo Lizano proactively requesting that the Agency tie their aid contributions to the liberalization of the banking system and the privatization of CODESA.[6] As a nexus between international and domestic efforts, the Agency-funded parallel institutions were employed to both depoliticize and accelerate the emergence of neoliberalism and privatization at the behests of domestic and foreign capitals.[7]

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[1] Booth 1998, 172
[2] Refer to Ch. Two, in particular the section on state and relative autonomy.
[3] Valverde 1993, 37-39; Feigenbaum and Henig 1994
[4] *cf.* Sojo 1991; Dolinsky 1990; Soederberg 2001b
[5] Wilson 1998, 117-18; Lizano retired on 5 Nov 2002; his successor, Paula Gutiérrez, has assured she will follow the same financial and credit policies as Lizano has historically (5 Nov 2002, "Noticias." www.capitales.com).
[6] Honey 1994, 79; Brenes 1990, 74
[7] Sojo 1991; Wilson 1998, 121

Of course, popular resistance has accompanied the emergence of privatization as a method of political domination and as a means to neoliberalism.[1] Recent president Miguel Angel Rodriguez (1998-2002) faced mass protests following renewed attempts to privatize the state telecom and energy industry, Instituto Costarricense de Electricidad (ICE).[2] The recent protests are reminiscent of the 1996 resistance to ICE's attempted privatization under the dictates of the IMF's structural adjustment programs; to date, both the 1996 and 2002 attempts to privatize ICE have failed due to extensive popular resistance and internal struggles within the PLN by sectors that continue to value the role of the public sector.[3] Similarly, efforts to privatize the national water and sewer systems (AyA) have encountered substantial popular resistance, which culminated in an AyA worker's union strike and protest staged on October 2, 2001.[4] The strike was in response to the ruling centre-right PUSC administration's desire to privatize AyA, whose privatization rationale was shrouded within a supposed social democratic party platform and a neoliberal-based feasibility study conducted by Spanish consulting firm, NMAS1, who had concluded that AyA's infrastructure was in a state of severe crisis.[5] NMAS1's only solution to Costa Rica's water problems was massive and immediate private sector investment in AyA (read: privatization). In contrast to such fatalistic conclusions, national unions have proposed several viable projects to sustain and improve AyA's hitherto excellent service (e.g., tap water is drinkable and service-dependable, as opposed to that in many poorer countries world-wide) over the medium and long term without privatization.[6] Generally, popular protests in Costa Rica have served to slow the processes of privatization and even stop it in some cases of concerted social action, which implies that people are still important and that social resistance is not entirely futile.

CONCLUSION: Privatization as a New Method of Political Domination

State-led capital accumulation during the Bretton Woods era constituted one form of political domination that allowed for a particular form of progressive capital

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[1] Refer to Ch. 3 above
[2] *Economist*. "The Challenge to Paternalism" 6 April 2002.
[3] Wilson 1998, 165; Mesa-Lago 2000
[4] *La Nación*. "Paro en Servicio de AyA." 3 October 2001.
[5] *La Nación*. "Proponen Privatizar Acueducto." 27 September 2001; "AyA Valorará Concesión." 28 September 2001; "Sí Privatizarán el Agua." 1 October 2001; "Paro en Servicio de AyA" 3 Oct 2001; See also NMAS1 initial outline for AyA's so-called rescue, *Borrador Final Para Comentarios: Projecto de Alcantarillado Sanitario en el AMSJ*. October 2001. Personal interview with German Araya, president of AyA's professional union, San José, November 2001.
[6] Ibid.; see also Mora Alvarado 2000

accumulation and rate of profit (*cf.* Chapter Four). The emergence of neoliberalism under the hegemony of the DWSR now constitutes a new form that has deepened political domination over the popular classes (*cf.* Chapter Three). As we have seen above, privatization, as the vanguard of neoliberal reform, extends proletarianization by intensifying and extending the numbers of countries and peoples under the structural power of capital. The reconfiguration focuses upon removing the state as much as possible from the sphere of production. Removing the state minimizes the material presence of the popular classes within the state as a field of struggle. Costa Rica's experiences demonstrate that with privatization there is a conspicuous link between various domestic and foreign capitals, American and Costa Rican governmental elites – each of whom have benefited from restructuring through various state-authored (be it the US or Costa Rica) incentive programs. What is also conspicuous is the increasing exclusion of much of the popular classes from formal decision-making apparatuses alongside and as a consequence of the restructuring of the state as a field of struggle.

In Marxist terminology, privatization can be interpreted as a more aggressive move from subsistence production (C-M-C) to one in which labor is progressively commodified within capital formation processes (M-P-C-M^1) or, with the re-assertion of finance, left more and more irrelevant (M-M^1). Such capital accumulation developments provoke the objective need to free labor from the shackles of so-called state-authoritarian rule; in other words, neoliberalism argues for the democratization, that is, privatization, of the economy in order to expand capital for the benefit of capitals. In reality, this is simply a 'new' class-based form of political domination, which is historical and therefore open to social contestation and processes of collective social learning, the hints of which we have seen in Costa Rica.

CHAPTER SIX

CONCLUSION

"But now, *" says the Once-ler, "Now that* you're *here, the word of the Lorax seems perfectly clear, UNLESS someone like you cares a whole awful lot, nothing is going to get better. It's not.*

Dr. Seuss, The Lorax

If you want an education, join the revolution!

Che Guevara[1]

I have demonstrated in the preceding pages that contrary to dominant common sense understandings, the emergence of neoliberalism in Costa Rica is best understood as a new form of political domination. As a historical class-based ideology, with its central aim of overcoming recurrent barriers to progressive capital valorization, neoliberalism proposes that all social, political, and ecological problems can be resolved via more intensive and extensive forms of class-based exploitation and more direct exposure to market competition. Thus, because neoliberalism seeks to restructure pre-existing social relations of capitalist production, it constitutes a new form of political domination. As a new form of domination, neoliberalism has formative roots within earlier class compromises and production relations. Privatization has been a vanguard method of neoliberal political domination because it reconfigures the social relations of production by deepening the structural power of capital. However, as a historical moment, neoliberalism is open to social contestation and learning processes – that is, class-struggle. My understanding of neoliberalism's emergence has been best approached through a historical materialist analysis of the interrelated dimensions of capital, crisis, and state, which are themselves moments of the wider social relations of capitalist production and have formed the central elements of my analysis.

From Domination to Liberation?

Amidst widespread popular protest, Costa Rica and Canada exchanged ratifications of their new Free Trade Agreement on 1 November 2002 in Quito, Ecuador – at the 7th

[1] in Walker 1980, 120

Ministerial Reunion for the Free Trade Area of the Americas.[1] The symbolism of both the new FTA and the place of exchange served as capitalist libations signifying each state's commitment to the broader FTAA negotiations.[2] The previous day, the US government announced the FTAA was fundamental to their ability to compete at a global level with other large economic blocks such as Asia and the European Union.[3] However, four days later at the 8th State of the Nation Address, the Costa Rican government announced that each year is less and less equitable and that the country continues to suffer from the consequences of faltering social programs, especially in education, and their export-promotion strategy, which has not brought greater social benefits. Rather, a concentration of exporters has occurred while smaller producers suffer.[4] The week following, ironically, during a state-sponsored export-promotion expo, Alberto Trejos, Minister of External Commerce, testified to the importance of *intensifying* export promotion to countries with which they hold free trade agreements.[5] While I cannot address these particular events here, their importance can be inferred from the preceding pages of this thesis and a consideration of the interrelated common variables of capital, crisis, and state which together are set within the wider contradictory capitalist social relations of production and class struggle. Why the contradictions and who benefits?

The contradictions of an increasingly disparate and unequal set of global social realities and ever more illegitimate propagation of neoliberalism and associated relations of political domination make understanding the nuances of neoliberalism in the political South from a class-based analysis all the more salient a project. In light of these unresolved contradictions, not despite them, the importance of Costa Rica's re-insertion into the world market via neoliberalism as a new form of political domination is paramount because it points to the character of the world market as composed of many national economies and the need for capitals to maintain and reproduce a form of overarching capitalist hegemony.

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[1] "Noticias." www.capitals.com. 1 November 2002; The FTAA is a process initiated at the 1994 Summit of the Americas that seeks to extend a free-trade agreement to the entire Americas by 2005.

[2] drawn from DFAIT news release downloaded 22 Nov 2002, http://www.dfait-maeci.gc/tna-nac/CR-high-e.asp

[3] "Noticias." www.capitales.com. 31 October 2002.

[4] "Noticias." www.capitales.com . 5 November 2002

[5] "Noticias." www. Capitals.com. 7 November 2002

Neoliberalism, then, is a historical class-based strategy that progressively brings the bearers of the global capitalist social relations of production (nation-states internationally and the popular classes domestically) and the international division of labor more intensively and extensively within the free market capital accumulation paradigm. By bringing states like Costa Rica more intensely within the global circuit of capital, any potential threat of dissention at the global intra-state level is minimized: a neoliberal capitalist state is less a threat to progressive exploitation and capital valorization because it is more fully integrated and subjugated to the exigencies of capital than, for example, a Keynesian protectionist state, which is not as dependent (but nonetheless remains altogether capitalist and therefore subject to its contradictions). Still, while seeming to be less of a threat to the capitalist order, neoliberalism and financial orthodoxy have also ushered in a more volatile set of class compromises and capital accumulation processes.

To bring states more fully under capitals' domination presupposes that the popular classes are similarly more fully subjugated to its structural exigencies, as Costa Rica and privatization have exemplified, because the state is a social relation just as capital is a relation between labor and capital. More intensive popular class subjugation facilitates more extensive forms of political domination, such as more extensive proletarianization, within the capitalist accumulation paradigm for the same reasons a neoliberal capitalist state does – less potential for dissention. Just as financial orthodoxy creates volatility, so too has neoliberal political domination through an increased marginalization of people within the exigencies of the free market – a marginalization that has manifested in domestic unrest in Costa Rica and wider contexts such as the WTO protests in Seattle (2001), the FTAA protests in Quebec City (2001), and G-8 protests in Genoa (2001).[1] Of interest, then, is that one cannot separate domestic and international, political and economic processes of subjugation, for none are intelligible in isolation; international processes must be translated and extended into domestic formations and the popular classes for them to be successful. That is, economic globalization is a profoundly domestic process. Understanding the structures, barriers, and interrelations releases the potential for social learning and discovering more creative alternatives to capitalism. The question remains, however, how does one learn and teach revolutionary alternatives to

[1] For a historical materialist analysis of the 'anticapitalist' movement, see Keily 2002

capitalism within neoliberalism as a form of political domination when, as Paulo Freire puts it, "[e]ducation is always a political event"?[1]

Equitable alternatives to exploitative capitalist social relations of production become all the more vital because the emergence of neoliberalism is not a question of common sense economic policy but rather a question of class-based political domination. Forms of political dominance only become comprehensible once the embeddedness of neoliberal ideology and the structural power of capital are exposed. In the case of Costa Rica and the emergence of neoliberalism, when the privatization of public infrastructure becomes the accepted foundation for all major political parties based upon each one's avowed 'social platform', then one can infer the depth of neoliberalism's dominance. The question of "who benefits?" from neoliberalism is not ignored for the reason that the common sense answer is already given: each individual citizen. There are no alternatives, it follows, to the power of the market to solve all social, economic, political, and ecological problems. But who in fact has benefited and why from the emergence of neoliberalism?

As a new form of political dominance, neoliberalism has overtly benefited the capitalist class by reconfiguring the social relations of production and creating a class-based economic boom as exemplified in post-1980s Costa Rica. The reconfiguration benefits capitals by renewing opportunities to progressively valorize capital with improved rates of profit and by facilitating massive transfers of wealth from the poor to the rich.[2] To achieve renewed capital valorization and profit opportunities, the productive capacity of labor and the limited benefits they have gained have to be destroyed. The restructuring of the capitalist state, as a field of struggle, had to occur so as to allow the fall of productive capacity and the rise of the freedom of market. Thus, in the post-BW era, various domestic and foreign capitals initiated a struggle to restructure existing relations of production and global structure of capital accumulation. These dynamics, coupled with the emerging dominance of finance, have brought forth a new form of state, the neoliberal *competition state*[3] – "a state in which all policy formulations, such as social and welfare benefits, are subordinated to the goal of attracting and retaining the most

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[1] In Walker 1980, 120; For hints, see the works of Marxist revolutionary adult educator, Paulo Freire (Elias 1994, Collins 1977; Walker 1980).
[2] See Richards 1997
[3] Cerny 1994,1997; see also Judson 2002; Soederberg 2001a, 2000

capital investment possible."[1] The formation of the competition state has helped effectively shape questions of social reform into a 'Third-Way-capitalist-apologist-type' discourse that sugarcoats capitalism's inherent contradictions and exploitative social relations with a so-called progressive question, a question which assumes the sterilized form of "what kind of social democracy?" rather that "what kind of democratic socialism?" we should strive for.[2] In this sense and drawing upon what I have argued in the main body of the thesis, the rise of neoliberalism and what can be called the competition state broadly represent a Gramscian passive revolution: "a change in forms of political and ideological domination by the ruling classes that is rooted in the wider restructuring of the social relations of capitalist production…."[3] In other words, a passive revolution is a process wherein the dominant groups take the initiative in making limited economic concessions to subjugate the popular classes, thereby forestalling more fundamental challenges from them by seeking to disarm effective social action on the part of the popular classes and hence reproduce the conditions of capitalist domination.[4]

As to the wider processes of the passive revolution, many significant questions remain that have not been adequately addressed within the foregoing analysis. Did Costa Rica's popular classes, in their resistance to economic globalization and the passive revolution, understand themselves and their class-actions in terms *other* than those provided and defined by neoliberalism and the power bloc? Was resistance formed in concerted resistance to capitalism (for what can an anti-*globalization* movement be about if not about the dominant capital relation) or upon some other basis of oppression? If not, why, and what does this portend for their participation, success, and hope within the wider so-called anti-globalization movement? What also must be questioned is how popular struggle is understood vis-à-vis other intersecting forms of domination at the nexus of national and international processes within the world market. That is, how does neoliberal political domination, within the structural power of capital intersect, reinforce and recieve reinforcement from other forms of domination, such as patriarchal, racial/ethnic, and environmental oppression? Finally, in the context of a passive revolution, what social conditions would have facilitated the further radicalization of popular resistance in Costa Rica?

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[1] Soederberg 2001a, 107
[2] *cf.* Giddens and his third way social democracy (1998).
[3] Soederberg 2001a, 105
[4] Rupert 1993; *cf.* Costa Rica's 'social compensation' and the USAID's role (see ch.3 above)

On the global scale, to what extent are the fragmented Washington consensus and so-called post-Washington consensus linked to attempts to institutionalize dissent through a revamped United Nations, IMF, and World Bank?[1] In terms of reconstituted US hegemony, what further role will the USAID play in attempting to construct 'consensus', in light of the case of Costa Rica illustrated above, especially given the dubious altruism of contemporary 'African food' aid, 'Afghani road building' aid, 'Educational for All' aid, and 'Millennium Challenge Account' development aid? The questions of "who benefits?" and "why?" must continue to be asked. This is all the more salient as neoliberal globalization and privatization have not yet, and indeed cannot, resolve the social contradictions that include increasing disparity between the bourgeoisie and the popular classes that rest in the class-based and exploitative relations of capitalist production, contradictions that manifest in social upheaval.[2]

Contrary to fatalistic 'there-is-no-alternative' economic globalization advocates and apologists, the very fact that a small national economy of 3.8 million people has and continues to resist certain forms of neoliberal domination and privatization and maintain some semblance of a welfare state raises serious questions about the so-called inevitability of neoliberal restructuring and the importance of and true role of the state in restructuring processes. In turn, this leads one to wonder at the potential for the resurgence of Polanyi's second movement for the self protection of society, or moving from domination to liberation in Costa Rica and elsewhere.

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[1] For discussions of the so-called 'post Washington Consensus' and the new international financial architecture, see Soederberg 2001, 2002 ; Cypher 1998

[2] Robinson 1998

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Appendices
(Chapter Three)

Appendix A: Principal IMF and WB Agreements[1]

1) Structural Adjustment Programs (SAPs) with the World Bank

Production and Commerce

- Policy of incentives and promotion of traditional and non-traditional exports (SAP I & SAP II);
- Increase the efficiency of the production of basic grains with technical support and gradual finance (SAP II);
- Promotion of imports through tax reductions, elimination of permits to import, and reduction of tariffs;
- Flexible exchange rate and periodic adjustment;
- Financial assistance for business to adapt to the new international market conditions (SAP I);
- Anti-monopoly legislation and suitable legislation for primary goods and material acquisitions in the international market (SAP III);

Financial Restructuring

- Policy of fixed interest rates at market levels (SAP I & SAP II);
- Reduction in subsidized agricultural credits; increased efficiency and flexibility of the private financial system;
- Access of private banks to pre-export funds and direct finance from the Central Bank with funds from external origins; loans in foreign money to the private sector of the inter-bank free exchange type (SAP I);
- Improvement in the efficiency of state-bank operations (SAP II);
- Regulations so that functioning norms of public banks are similar to those of private banks (SAP III);
- Creation of a fund for the protection of private financial entities (SAP III);

Public Sector Restructuring

- Reduction, via incentives, of public employment so as to make viable state transformations (privatization by economic democratization);
- Limit salary increases (SAP I);
- Public sector modernization;
- Open up monopolies, establish the necessary regulatory mark in the branches of social security and production of alcohol, without excluding the possibility of privatization (SAP III);
- Execution of the Law of Concession of Public Works by Contract (SAP III);
- Privatization of public services via the Law of the Democratization of Public Services (SAP III);
- Financing of an economic and social infrastructure improvement program (SAP III);

Social Policy

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[1] Compiled by Concertacion Sindical Costarricense (1993) in Valverde 1993, 30-33; Translation from author

- Democratization of the "propiedad de la tierra" within rural development plans and instigate the formation of workers businesses (SAP I);
- Consolidation of special pension regimes/reform regime of Disability, Old Age, and Death, create Complementary Pension Funds offered by both public and private institutions (SAP III);
- Reduction of administrative costs for institutions that give subsidized social services/investment in the most needy classes; reduction of covering costs of programs Family Assignations to improve efficiency; improve the orientation of government subsidies in a way that the majority goes to the poorest 30% of the population. In particular, the percentage of school food program subsidies that today go to the most poor 20% of children will increase to near 30% of this poor population (SAP III);
- Development of a public personnel retraining program that will mobilize, so as to facilitate their productive reinsertion (SAP III);
- Utilization of a single registry by all programs financed by DESAF y reduction of administrative costs that give social services and subsidized investment in the most needy classes (SAP III);

2) Letters of Agreement with the IMF:

- Pressure over institutions so that they operate with a different rationality. It is planned that they must augment public service tariffs until they have a surplus (IMF-1985) y and the sale of some public enterprises. In the IMF 1987 Agreement they propose an adjustment of prices and tariffs of public service institutions that allow them to cover the costs of the service and later they propose (IMF 1989) that these institutions operate with a surplus. In the IMF 1991 Agreement they propose the sale of enterprises subsidized by CODESA and the privatization of other state institutions.
- Reduction of employment (IMF 1985 & 1987) y later plan to reduce public sector employment in 9 phases (IMF 1991)
- In relation to salaried employees, plan a cautious policy (IMF 1982) and later define that these employees will maintain contracts, including merit and seniority, although they will not accept it.